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## **MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, how safe are your savings in Irish banks as weekend talks continue on a bailout for the banks and the Irish government? The dangers of more flooding have receded, but people in Cornwall are facing big bills and could they struggle to get insurance in the future?

**FARLOW:** I mentioned that we were lucky in as much as our insurance was due to renew on 26<sup>th</sup>, and the lady said "Well I don't think you'll be renewing with us".

**LEWIS:** The minister and the insurance industry debate solutions. We have more on identity protection insurance and the Cycle to Work scheme may be back on track.

But first, talks are still going on this weekend about the possible 70 billion euro bailout of Ireland's banks and government by the European Union and the International Monetary Fund. But news that Ireland's banks might be in trouble over the last week has made many Money Box listeners worry about the safety of their savings - not least in the Post Office here, as Bank of Ireland runs its savings accounts. And those worries have been made worse for some people after they reported that they still haven't had their money from Post Office savings bonds that matured at the end of October. Our reporter Ben Carter's been looking at this.

**CARTER:** That's right, Paul. David in Abingdon contacted us to say that his bond matured on October 27<sup>th</sup> and that despite numerous phone calls to the Post Office and

the Bank of Ireland, he was still waiting for a cheque for £27,000. Another David in York had a similar story. He'd been told that his cheque for £38,000 for a bond which matured on October 29<sup>th</sup> had been issued on 2<sup>nd</sup> November. But when he hadn't received the cheque a week later, he was told that it hadn't actually been issued at all.

**LEWIS:** Well that must have been pretty worrying, Ben, when the news has been full of Irish banks in trouble. What have the Post Office and Bank of Ireland said?

**CARTER:** Well in statements, they both blamed the confusion on a change in administrative supplier. The Post Office have said that a number of customers have received their money in the last few days, and those who haven't will be receiving cheques early next week.

**LEWIS:** And what about the interest they've lost in that what month of the delay?

**CARTER:** Well the Post Office have confirmed that they will be compensating customers for that, and, certainly in the case of our two listeners, a small ex gratia payment will be added on top.

**LEWIS:** Thanks for that, Ben. So fixed term savings seem to be safe, but what about ordinary deposits? More than 2 million UK residents have deposits worth many billions of pounds in Irish banks, and much of it through the Post Office. Ralph Silva of Silva Research Network is a banking specialist. I asked him how safe this money was.

**SILVA:** It's inconceivable that the banks would fail in relation to the retail or high street investor. The reason for that is if the customers actually lose their money, then the social services actually have to step in; and of course if there's no money for anything else, they can't do that. So Ireland would start selling land. They would start selling every asset they have to make sure that retail investors or high street investors actually get all their money back. So saying that, it is absolutely safe. By the way, this does not stand true for corporations - that money is at risk - but not from a high street perspective.

**LEWIS:** So people who've got money in Irish banks either through the Post Office or some other way directly, are they covered by the normal European laws of £50,000 in the UK, soon to be about £85,000?

**SILVA:** Of course, all Europeans are covered by those rules. But the Irish have actually extended that rule for the Irish banks. They had to. Because the banks were in trouble, they had to instil confidence. In fact in the UK, we did the same thing at the Northern Rock time. So in fact in Ireland right now, unlike the rest of Europe, they're actually guaranteed to 100% in most cases; and even when it's not 100%, it's 100,000 euros, which is significantly more than elsewhere. So it's very safe because the Irish government had to instil confidence and those protections are still there.

**LEWIS:** And given the problems of the Irish economy and the Irish banks - if all the banks did go bust, could the Irish government meet that promise?

**SILVA:** Absolutely not, they could not. But in fact there is no European country that could suffer that kind of pain if they all failed at once. But that can't really happen because the asset bases of the banks, the banks own quite a bit. What we will see, however, is banks being forced to merge, so we'll see fewer banks in Ireland but the banking industry has to survive because we have no other way of managing an economy if we don't have the banks.

**LEWIS:** And just perhaps to make people feel a little bit better about the UK banks, a lot of money was put in or guaranteed, shares were bought. Are we actually going to see a profit on that?

**SILVA:** We absolutely will, especially if you look at Lloyds. Lloyds, we're going to be making a profit fairly soon; and if we hold for a 5 year period, I feel like we're going to make a killing off of this. They're good investments because they have all our money. So investing in it is a good thing. It's just going to take some time and we're being a little bit impatient at this time.

**LEWIS:** Reassuring words from Ralph Silva. And the Post Office confirmed to me in

the last 24 hours that money in deposit accounts which are run by Bank of Ireland UK is covered by the Irish government's unlimited guarantee until 30<sup>th</sup> June 2011. And fixed period bonds, taken out from 11<sup>th</sup> January 2010, are covered by this guarantee until they mature. Bonds taken out earlier are covered by the normal £50,000.

Well savers may be safe, but the talks this weekend in Dublin certainly show that the Irish economy and the Irish banks themselves are in trouble. There are two Irish problems. The economy of the state is in breach of European rules. This year it will borrow about a third of everything it spends, which is ten times the European rule for members of the euro, although of course it has to be said not all euro members obey that rule every year. Second, its banks have huge debts due to foolish lending into the booming property market, and some of those debts will never be repaid. So a bailout of tens of billions of euros is certainly on the cards. With me is Michael O'Sullivan, an economist, author of 'Ireland and the Global Question'; and more recently, I think Michael, 'What Did We Do Right: Learning from Ireland's Miracle', which is your latest book. And we had this crisis in the UK here in 2008. How come the same script is being played out in Ireland two years later?

**O'SULLIVAN:** Paul, I think what's very sad about the impending bailout in Ireland is first of all so much has been squandered. If we go back to 2007, Ireland had a vibrant economy. It was a very rich country. And also if you go back to October 2008 things could have been so different if a different policy road had been followed. And a slightly different policy road was followed in the UK. The extent of the banking debts in the UK were nothing as great as in Ireland. The key mistake in Ireland was to take pretty much all of the banking debts onto the national balance sheet.

**LEWIS:** Your book is called Learning from Ireland's "Miracle". I mean it was thought to be a miracle at the time. It looks more like a disaster now, doesn't it? What have they done wrong?

**O'SULLIVAN:** Again you know in 06/07 countries as diverse as Chile, China, Israel were sending their wise men and women to Ireland to study its miracle. I think Ireland did something right in the 1990s in that its economy managed to catch up with the rest

of Europe; but in the subsequent 10 years we have had one of the great asset price bubbles with all of the hubris, with all of the materialism that other asset price bubbles have had going right back to the Mississippi scheme and South Sea bubble.

**LEWIS:** Sure, but this isn't an act of nature, is it? I mean we're talking about floods later. It's not something visited on us. This is done by the banks and by the economists.

**O'SULLIVAN:** It's partly an act of human nature. It also can be attributed to very, very cheap and easy money. And I think Ireland's relationship with the EU - and there are lessons for this for other countries - one of the problems we had is that on entry to the EU, we had inappropriately low interest rates; and if you factor in inflation, real rates were actually negative for a number of years.

**LEWIS:** And George Osborne here has hinted that the UK government might step in. Why are we in danger from unstable Irish banks?

**O'SULLIVAN:** Well I think there's a number of reasons for that statement. One, I would hope that Irish and British relations have warmed even more so in the last 10 years. Ireland is a very significant trading partner with the UK - more so than many of the big emerging nations. And I think because there have been so many business transactions - be it Irish business people doing business in the UK and vice versa - that many of the UK banks are now exposed to Ireland.

**LEWIS:** So are you expecting to see some kind of deal over the next few days?

**O'SULLIVAN:** Well the deeds are being drawn up. The deeds to the economic ownership of Ireland have been drawn up ...

**LEWIS:** You mean someone else is going to own it?

**O'SULLIVAN:** ... in the last couple of weeks. I think it will probably take another

two weeks before we see the very fine details of this, in particular relating to the banking system and the recapitalisation on the banks.

**LEWIS:** And in a word, literally a word, will it solve the problem?

**O'SULLIVAN:** It all depends on whether the bad debts of the banks rest on the national balance sheet or not.

**LEWIS:** Michael O'Sullivan, thanks very much for talking to us.

Now hundreds of householders in Cornwall are facing a bleak weekend clearing up after the floods earlier this week. Cornwall county council estimates 230 homes and 400 businesses were damaged. Carl Farlow lives in St. Austell, one of the affected towns. He has never been flooded before.

**FARLOW:** We were devastated. We live in a small cul-de-sac, which is like a bottleneck and the main road above us. And everything's coming in off the main road, straight through our property, depositing roughly about seven to eight tonnes of sewage and dirt and sand and even suitcases and people's knick-knacks and photographs.

**LEWIS:** Oh dear. So what have you said to your insurance company?

**FARLOW:** The insurance for the buildings hasn't even got back to us yet. And our other insurers for the contents, they've been quicker off the mark but they're expecting me to get everything appraised - take it round, different things that are broken and damaged, and get it appraised.

**LEWIS:** And what have they said to you about insurance in the future?

**FARLOW:** I mentioned that we were lucky in as much as our insurance was due to renew on 26<sup>th</sup>, and the lady said, "Well I don't think you'll be renewing with us." And

I said “Why? We’ve never been flooded. We’ve never claimed” and they said, “Well it’s policy.”

**LEWIS:** Have you talked to the insurance company and asked them whether that is indeed true what she told you?

**FARLOW:** Yeah, I rang the insurance company direct and they said the underwriters are the ones that dictate to them about the insurance that they can sell. And if they say no, they would shop round and try and find us another, but they said to expect a rocketed premium.

**LEWIS:** One man’s experience. Live now to Worcester to talk to Mary Dhonau, Chief Executive of the charity National Flood Forum. Mary Dhonau, how widespread is the issue of people like Carl who’s worried he’s not going to be able to get flood insurance or at least not afford it if he is offered it?

**DHONAU:** First of all I have to extend my sympathies to everybody in Cumbria because your reporter said that they’re going to be mopping up for a bleak weekend. We’re going to look on a bleak year, so it’s a harsh time for them. But, yes, sadly Carl’s story is fairly typical of what we’re hearing. You must understand we get everything on the sharp end at the National Flood Forum. People come to us with problems when they’re experiencing problems.

**LEWIS:** Yes, I mean you’re making the point that people in Cumbria are still clearing up a year later and people in Cornwall have got more than a weekend of it, and I do understand that. But are you finding people are being told by their insurer, either as Carl was at first - we won’t insure you, which they’re not supposed to do - or, if they do, it’s so expensive that they just can’t afford it?

**DHONAU:** Well according to an online survey we undertook earlier this year in the summer and also a more recent one taken by the Keswick Flood Action Group, about 12% of people have actually been refused insurance cover following a flood. And a good 50% of people are finding incredible increases on their premiums, and the

average price increase is a staggering 556%.

**LEWIS:** Right, so six and a half times as dear. Well with me in London is Nick Starling who's Director of General Insurance at the Association of British Insurers. Nick, I thought insurers were guaranteeing that no-one with insurance would be refused a renewal, and the spirit of that surely is that they'll be offered a renewal they can afford?

**STARLING:** Well the first thing to say is you mentioned both Cumbria and Cornwall. The insurance industry have put Cumbria back together again and they'll do the same in Cornwall, and that's what our members will be concentrating on at the moment. That's what they're for and they'll be doing that.

**LEWIS:** But what about the future? What about premiums next year?

**STARLING:** Well no-one can say what's going to happen to premiums next year. The vast majority of people in this country can get insurance which is tied up with their buildings or contents insurance which will cover flooding, and they can be reassured by that.

**LEWIS:** But those are people who are not likely to be flooded. Once you've been flooded, your lot seem to say sorry, it's going to cost you another six times as dear, Mary Dhonau says.

**STARLING:** No, they don't. Mary said that ... she's acknowledged she gets people at the sharp end. She gets the people who've got problems and we see the great majority of people. We see it across the piece. The great majority will have their claims met and they'll be able to renew. But obviously in the future we need to make sure that risk is properly managed, so we don't run into problems.

**LEWIS:** But what about pooling of risks? In the past, we've all paid a premium. If you had a disaster everyone else is in a sense paying for it. You now seem to want to

cherry pick and say you're near a river, you've been flooded, we're going to boost your premium.

**STARLING:** Insurers pool risk, but you have to pay the price for the risk you bring to that pool. That's why young drivers pay a great deal more than you or I do. That's how it works. But what we need to do is to make sure that we act at source and we help to reduce that risk, so that people don't find themselves in that sort of situation.

**LEWIS:** Well listening to us is the minister in charge of floods, or perhaps I should say the Environment Minister, Richard Benyon.

**BENYON:** Good afternoon.

**LEWIS:** You don't take responsibility for the flooding. These have come at a bad time for you, haven't they - just after you announced 8% cuts over the next 4 years in the amount the government's spending on flood defences? Surely we need to spend more, not less?

**BENYON:** In the context of government spending, an 8% cut is a really quite good result. We have to also look at the way in which we roll out flood risk management. We think we can do more for what we're spending. We think we can access schemes for communities in different ways, which mean that we can actually protect more homes. It's outcomes I'm concerned about. And so I think, particularly in the context of the announcement by the last government they were going to cut capital spending by 50%, I think this is actually not bad.

**LEWIS:** Well let's leave the last government out of it.

**BENYON:** Well you know ...

**LEWIS:** No, no.

**BENYON:** ... you said it was a cut and we have to make clear against what.

**LEWIS:** Well let me ask you what you mean by these community solutions to flooding. I mean do you all stand there with Wellingtons and sandbags?

**BENYON:** There are so many communities that need protection from flooding and year after year they have been pushed down the list because they are overtaken by schemes that can access, that can show a better return for money. And what we want to do is try and get some of these in the frame. And they may be able to access more funding through innovative use of the planning system or by unlocking regeneration, which means that business might contribute, or they might choose (as a scheme I was looking at yesterday) decided to do a levy on the basis of council tax. And we just want to make it easier to inject clarity into the system, so we can get more schemes going ahead. The way to manage the insurance problem is to manage the risk, and to make sure we're providing flood risk management to as many houses as possible.

**LEWIS:** Nick Starling for the industry, are you convinced the government's doing enough so you'll extend your guarantee that people will at least get some kind of insurance in the future?

**STARLING:** Well, as the minister said, it's outcomes that matter - what actually happens on the ground and the number of families who are protected - and that's what we want to see. The other thing that the government has said it's going to do is it's going to produce a long-term plan. I think that's what we all want to see. You're not going to solve the problem of rising flood risk overnight, but if we all have a sort of telescopic view of how we can look at the long-term risk management, I think it will give everyone confidence to be able to continue.

**LEWIS:** And will that confidence mean a renewal of your agreement after 2013?

**STARLING:** We're not going to renew the agreement after 2013.

**LEWIS:** Right, so after 2013 someone who's been flooded will be told, "Sorry, no insurance"?

**STARLING:** No, that's not the case at all. At the moment our members are writing policies way beyond the statement of principles, which only deals with areas where flood risk defences are planned.

**LEWIS:** Let me go back to Mary Dhonau from the National Flood Forum. Mary Dhonau, what would you like to happen now by the industry and the government briefly and I'll put it to them?

**DHONAU:** Well first of all I think the minister is playing games with the actual level of the cuts. The Environment Agency's chairman, Lord Smith, actually said yesterday it was a 27% cut, and in fact the Association of British Insurers said ...

**BENYON:** It's not.

**DHONAU:** ... on the day of the Comprehensive Spending Review, it was a 40% cut. The Environment Agency board are going to have to get together to make their mind which flood defences are going to cut and how many staff they're going to make redundant.

**LEWIS:** And what would you like the industry to do?

**DHONAU:** Well first of all, I'd like the industry to acknowledge when people have made moves to protect their own properties with flood resilience and flood resistance because to this date they're not reflecting that in the policy price and excess prices.

**LEWIS:** Mary Dhonau, I'll have to stop you there. Richard Benyon, I'm sure wants to deny your figures. There's no time, Richard, but I'll deny them for you.

**BENYON:** I would really like to talk it through with Mary because I can absolutely

assure her that we have defended the floods budget.

**LEWIS:** Alright, why don't you meet to do that?

**BENYON:** We meet regularly and I'm a great fan of Mary's, but I'll correct her on this one.

**LEWIS:** Alright. And Nick Starling, I'm sure would say ...

**DHONAU:** *(over)* I'll see you on Wednesday.

**BENYON:** *(over)* We will.

**LEWIS:** There is a meeting on Wednesday. It'll almost be Wednesday by the time we've finished with that item running over, so we'll say thank you to Richard Benyon, Nick Starling and Mary Dhonau.

And we'll now move onto an update on ID theft insurance. Money Box has received scores of emails after last week's item on bank customers being sold what's called identity protection policies when they phone up to activate their card. They're sold by Card Protection Plan, and it has admitted to Money Box this week some of its staff may have wrongly told customers their bank won't cover them if they're the victim of fraud. Bob Howard's been following this story.

**HOWARD:** Paul, one issue which has made listeners unhappy when they've been dealing with CPP is when they're told their bank will not cover them for any losses they incur as a result of fraud. Eve from Oxfordshire says she was told this by the company this week. She'd had ID protection cover for some time, but no longer wanted it and phoned up to try and cancel.

**EVE:** I felt that the person I spoke to tried to frighten me into not cancelling it. It must have been at least five minutes of scare stories really about if my card was used

fraudulently that I could be responsible for any losses. I backed down and said, “Oh okay, I’ll have a think about it and I’ll get back to you.”

**HOWARD:** After the call, Eve did some research and felt that her bank would cover her for any loss, so she wrote to CPP to cancel the policy. Martin Hocking, Editor of Which?, says the bank should protect you if the worst happens.

**HOCKING:** There’s something called the Banking Conduct of Business Rules. It means that as long as you haven’t acted fraudulently or with gross negligence, your liability is limited to £50. And in truth, in our experience, providers would even waive this, so you may in reality not be out of pocket at all. The only reason why a bank is going to come down hard on you is if you’ve done something like written your PIN number on a piece of paper and kept it in your wallet, which we would hope that the average Money Box listener wouldn’t do.

**HOWARD:** I asked CPP this week if it felt some customers may be being misled if call centre staff were saying banks would not cover them for these sorts of losses. The firm said this would not be part of any script, but accepted that there may be the odd example of an agent using unauthorised content of this nature and it gave us this statement.

**CPP STATEMENT:** Our 1,000 contact centre staff in the UK take over 5 million calls a year in the fight against fraud. We’re investigating each and every complaint made to Money Box and if any more of our customers have complaints, we encourage them to get in touch with customer service. We have a rigorous complaint handling policy and high levels of customer satisfaction and service lie at the heart of our proposition to our business partners and customers.

**HOWARD:** And, Paul, the firm also clarified that the £60,000 protection it offers doesn’t cover the amount of any fraud which arises from identity theft, just the cost of resolving it like legal costs and time off work.

**LEWIS:** And Bob, CPP spoke to me last Saturday on the programme, but none of the

banks would. Have you had any more luck this week?

**HOWARD:** Well, Paul, I've spent the week trying to get the banks to respond to the emails we've received from their customers. Again none would be interviewed about their relationship with CPP, but Barclaycard told us it was acting.

**BARCLAYCARD STATEMENT:** The customer feedback provided by Money Box has raised a number of concerns around specific issues that our customers have had with the service. Barclaycard would like to apologise for these. We're also taking steps to investigate these issues.

**HOWARD:** But other banks don't seem to share Barclaycard's concerns. Yorkshire Bank told Money Box it believes that CPP is fulfilling its obligations to its customers. Santander and RBS NatWest reiterated what they said last week - that they would look into individual customer complaints.

**LEWIS:** Thanks very much, Bob.

Well last week we reported that people who bought a bike through the Cycle to Work scheme could be in for a nasty shock. The scheme's been sold by employers as letting you buy a bike for not much more than half the shop price. But then HM Revenue & Customs spoiled the party, setting out a list of charges to be paid at the end of what is in effect a hire deal. For a £500 bike, it could mean a payment of £125 instead of the £25 typical before. But this week we can report on a way round this charge. Ben Carter's back, Money Box reporter and cyclist. Ben?

**CARTER:** Well, Paul, the scheme providers have come up with some workarounds. Essentially if you don't want to pay up to 25% of your bike's purchase cost when you buy the bike off your employer, you do have the option to extend the hire period without paying any more hire charges and this is going to enable you to buy the bike at a later date and for less.

**BROWN:** Their employer can offer to extend their hire agreement through what we call a modifying agreement. So anyone that's in an existing scheme can be given the option to extend the hire agreement for up to 6 years and therefore continue to use the bicycle at no extra charge and at some point in the future be given the opportunity to take ownership at a much reduced valuation and thereby protecting their savings.

**LEWIS:** Well that was Mark Brown from the Cycle to Work allowance. And how much will the reduction be?

**CARTER:** Well the different providers have come up with different solutions. If they and your employer allow you to extend the hire period to 6 years, you would probably only have to pay a very nominal sum to get your bike at the end. But not every provider will extend the hire period for that long. For example Cycle Scheme only allows you to hire the bike for a maximum of 4 years, but that still means you would only have to pay £35 to buy it off your employer at the end of the 4 years and that's about 7% of what the bike originally cost.

**LEWIS:** But, as one listener pointed out to us I think in an email, you can't sell your bike while you're still only hiring it, can you?

**CARTER:** No, you can't.

**LEWIS:** And what if you move job then?

**CARTER:** Well then your employer could give you the bike, but it would be classed as a taxable benefit and you'd have to pay tax on its fair value.

**LEWIS:** Okay, well that's a lot clearer now. Thanks very much for that, Ben. That's good news. That is it for today. Find out more from our website, [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox), where you can sign up to my weekly newsletter, download a podcast, listen again, and of course have your say. This week I forgot to tell you in all the rush, you're having your say on floods and insurance and the experiences you've

had. I'm back on Wednesday with Money Box Live, taking your questions this week on energy prices. Email questions now through our website. Back with Money Box next weekend. Today the reporters Bob Howard and Ben Carter, producer Ruth Alexander. I'm Paul Lewis.