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## **MONEY BOX**

**Presenter: PAUL LEWIS**

**TRANSMISSION: 21<sup>st</sup> MARCH 2009 12.00-12.30 RADIO 4**

**LEWIS:** Hello. In today's programme, prices could fall this week for the first time for nearly 50 years, and the Retail Prices Index will certainly fall some time later this year. When it does happen, what will happen to all those things linked to it like pensions and savings? Will they fall too? Bob Howard's been out with the bailiffs this week.

**HOWARD:** What should they be allowed to do when somebody refuses to pay up?

**HINES:** I can stand there and knock all day long and call through the letterbox. He will not open that door and there's nothing I can do.

**LEWIS:** The City watchdog sets out its plans to reform the banks, but has it forgotten about the customers? And if the banks made the mistakes, why should the building societies have to pay?

But, first, Tuesday could be a historic day. Figures out then could show the first annual fall in the cost of living for nearly 50 years. The Retail Prices Index, which has measured inflation since World War II, could drop below zero for the first time since March 1960. Although the government prefers to use another index - the CPI, which won't be negative in the near future - it is the Retail Prices Index, the RPI, which is still used to decide the annual rise in pensions, benefits, tax allowances, student loan repayments and some savings products. So what if RPI falls? Will the things linked to

it follow it down? Benefits and pensions are linked to the September Prices Index, which the government says will be minus 2%. I asked Andrew Leicester, Senior Research Economist at the Institute for Fiscal Studies, what would happen then to the state pension?

**LEICESTER:** If the RPI inflation rate is indeed negative in September, then what will happen is the state pension will actually increase by 2.5 percentage points next April. And this has been in place since 2003. The government announced that there would always be a rise of at least 2.5% if the RPI was below that, and clearly an RPI below zero is way below 2.5.

**LEWIS:** That's the state pension. What about other benefits - disability benefits, child benefit - that are normally linked to the Retail Prices Index?

**LEICESTER:** Benefits that aren't means tested - things like you mentioned, the child benefit - they would normally again increase in line with the RPI as it stands in September. And until the pre-Budget Report last November, we didn't know what the government planned if indeed the RPI is below zero. In the pre-Budget Report though, they made a commitment to increase these benefits by zero, basically keeping the cash amount unchanged in the next financial year.

**LEWIS:** What about means tested benefits - the income related benefits, as the government calls them, which is pension credit and income support? What happens to them?

**LEICESTER:** The means tested benefits are uprated by a different index. It's something called the Rossi Index. We don't really know whether that's going to be positive or negative in September, but the same commitment was made in the pre-Budget Report: if the Rossi is negative, then these means tested benefits will also be frozen in cash terms.

**LEWIS:** Now pension credit is a case on its own really, isn't it, because that's traditionally been linked to an earnings index? Do we know what will happen to

pension credit if inflation is below zero?

**LEICESTER:** There's been no commitment made on pension credit. But it would be unlikely, even if inflation were below zero, that earnings would also be below zero, so I think the likelihood is that that will continue. Now if indeed earnings are below zero, I suspect the government will make a different judgment when that time comes around.

**LEWIS:** Andrew Leicester. The government's also said that tax allowances will be frozen if inflation goes negative, though we do know that inheritance tax limits will rise in 2010. Well private pensions can also be affected by the RPI. Many people who have a personal pension chose one which rises each year with inflation. So will those index linked annuities, as they're called, fall if inflation goes down? Live to Bristol to talk to Tom McPhail, Head of Research at Hargreaves Lansdown. Tom, what happens to these index linked annuities if inflation falls?

**McPHAIL:** Hello Paul. Well buying an inflation linked annuity in principle is a good idea until you get deflation, and what will happen for some annuities is that the income that people receive could indeed go down during the course of this year. Now whether you're affected by this or not will depend on which particular annuity company you've bought your annuity from.

**LEWIS:** So some will go down. Will others what be frozen then like the state pension? Well not like the state pension. Like other benefits.

**McPHAIL:** Well, for example, some annuity companies such as AXA, LV, Partnership, Reliance Mutual, some of Standard Life's annuities, some of the Prudential's annuities - all these companies have said, yes, if RPI goes negative then your income payments, if you have an inflation linked annuity, they will go down. Just a couple of companies - Norwich Union, MGM, L&G - they have said your income payments wouldn't go down. What they would do is just go flat until RPI comes back above the surface again, until it comes back above where it was before, and then your income payments pick up again.

[Since the programme was broadcast Axa and LV have said that they have reviewed their policies and have no plans to reduce annuities if RPI inflation falls below zero.]

**LEWIS:** And which month do they use? Is it a standard month or is it the month you took the annuity out?

**McPHAIL:** Generally what insurance companies do is lock it from the date you take the policy out and they use the RPI figure from 3 months before that. So if we get a negative figure *this* month, the people that will be affected - go forward 3 months - are the people whose income is reset in June. So anyone who bought their annuity in June last year or the year before might find that when they get round to *this* June, they go back 3 months and say look it was negative in March, so your income goes down this time round.

**LEWIS:** And, Tom, some company pensions are also related. The pensions that are related to your salary are also related to inflation. Just briefly, will they go down?

**McPHAIL:** Generally no. Company pension schemes - the odd one could possibly, but we don't think they'd want to do it just because it would save them very little money and would upset a lot of people. So for your company pension, you're probably okay.

**LEWIS:** It certainly would. Well stay with us Tom. Let's now look at savings because some savings products pay interest linked to inflation. Popular ones are the index linked National Savings Certificates. What happens to them if inflation falls? Dax Harkins is Senior Saving Strategist at National Savings.

**HARKINS:** We actually look at the change in the index over each annual period and if there has been a fall in the Retail Price Index we don't actually add anything to it, but the customer still will get the guaranteed bonus amount added.

**LEWIS:** And when do you do that calculation? You say yearly.

**HARKINS:** Yes, it's on the annual anniversary of the investment.

**LEWIS:** If I bought them a year ago and inflation is negative over that period, I just get the bonus but I don't get any inflation linking?

**HARKINS:** Yes.

**LEWIS:** And then a year from now you'll be looking at the inflation figure for the following year?

**HARKINS:** Yeah, I mean that's one of the good things about these, is that we look at the movement in the Retail Price Index on each annual basis. So that means if we do have a fall in one year, it won't negatively impact the return you can get from the RPI element in subsequent years.

**LEWIS:** Dax Harkins from National Savings. And Tom McPhail is still with us. Tom, government bonds - gilts as they're called - also have an index linked version, don't they? Are they protected if inflation falls?

**McPHAIL:** No, absolutely not. If you've bought an index linked gilt, which again may have been a prudent purchase to maintain the real value of your income - however with deflation the income is set by reference to an index, to the RPI index, then multiply that by your income. And if the figure they're multiplying by this year is lower than it was last time round, then that will result in your income being lower than the previous income that you've received and that will continue for as long as we have a negative figure for RPI.

**LEWIS:** Tom McPhail of Hargreaves Lansdown, thanks. And if you have a student loan to repay, the interest rate is linked to the March inflation figure, which is published in April. And I rang the Student Loans Company yesterday. They tell me no decision has been taken on what will happen if that index is negative, but they promised it would be taken at "an appropriate time".

The government has put off changes which would have given bailiffs greater powers

to force their way into the homes of people ordered to pay money by the courts. It will now consult before any alterations in their powers are made, and it's delayed for 3 years a new system to regulate the thousands of people who have the power to enforce payments of debt. Bob Howard went out this week with one bailiff in East London.

**HINES:** (*knocks on door*) Hello. My name's Scott Hines and I'm an enforcement officer from Sherforce.

**HOWARD:** It's the knock on the door that many people with serious debts hope they'll never hear. Scott Hines is an enforcement officer acting on behalf of creditors who have a High Court writ to get their debtor to pay up. He often doesn't have much to go on.

**HINES:** I know absolutely nothing about these people until I knock on their door the first time. There's a chance when I get here that they're not even living here anymore.

**HOWARD:** Have you got to turn up with a pretty open mind sort of not knowing exactly whether the people you're seeking are living at this address then?

**HINES:** You take every job as it comes. And this area where I am at the moment is one of the nicest parts of East London, so I'm hoping that there's going to be a car parked on the drive.

**HOWARD:** Scott's hoping there's a car, so he can check the licence plate with the DVLA database to confirm whether or not it belongs to the debtor. If it does, he'll know he's got the right house. But also, as he's not allowed to force entry unless he's previously been invited in, it's a valuable item he can remove and sell at auction if the debtor refuses to pay. Scott's authorised to collect fines over £600. The woman he's seeking at the first house we go to owes around £12,000.

**HINES:** Looking at it, first of all, it looks like they have gone to work already. So I'll go and have a knock, hopefully there might be somebody there, and when I get back

in I'll tell you how it's gone.

**HOWARD:** There's no car, but in fact there is someone at home. It's the debtor's elderly mother.

**HINES:** When I got up to the window, I could see the house looked like an elderly lady lived at the house. And when I knocked on the door, she called out and you could tell that she was quite old and scared, so I've not gone in there like a bull in a china shop. It's the actual debtor's mother, but she has given me her daughter's address. You have to be a little bit professional. There is no point in making the mum scared any more than she has to be. I think she can see how serious it is.

**HOWARD:** Scott expects to visit around seven addresses this morning. As we drive to the next two, he's told the debtor isn't at home or no longer lives there. In at least one instance, Scott doesn't believe they're telling the truth.

**HINES:** Unfortunately it's one of those ones where I've been lied to I would say point blank. The guy wasn't very helpful at all and let's just hope that the vehicle does come back a match.

**HOWARD:** Even finding the debtor, let alone getting payment, is proving no easy matter. On the fourth visit, he has better luck as we head over from Wanstead to Manor Park. It's a builder who admits to being the debtor. Scott warns if he doesn't pay up, he risks losing his van which could be taken off on a tow truck within half an hour of Scott spotting it again. One property he gets no response from hardly comes as a surprise. He estimates he's been there around fifteen times and this is the third writ against the same individual. He owes his latest creditor around £3,000. Scott can't take his vehicle because the debtor owes money on it to a finance company. He can't get into the house and he never gets a response when he calls.

**HINES:** I can stand there and knock all day long and call through the letterbox. He will not open that door. After a while, you can only waste so much time. There's no point in knocking and knocking. And maybe that is where the law would benefit us if

it could be changed, so that we *could* force entry without being invited in, because it's obvious it's him. His name's on the side of a van, so the vehicle has come back matched to the debtor. But unfortunately it's un-financed. There's no value in that van whatsoever to us and there's nothing I can do.

**HOWARD:** Paul, of course the companies that allow reporters to go out with them aren't normally the ones that flout the rules, but there are many different types of bailiffs working in what is a very broad industry. Debt campaigners say those enforcing smaller debts like council tax arrears or parking fines especially are not handling the calls I heard about there from the elderly mother to the serial debtor with the same sort of professionalism.

**LEWIS:** Thanks, Bob. Well bailiffs will not get those greater powers, nor indeed regulation now, until 2012. But people working with debtors say it's too long to wait. Peter Tutton is from Citizens Advice, which has campaigned for changes to the way bailiffs work.

**TUTTON:** There are a number of different areas where we've seen problems - bailiffs sort of saying that they can do things that they can't do; saying that they can forcibly enter in circumstances where they legally can't as a way of trying to intimidate problems with the way the charges are levied. Some seem to be overcharging. You would think it would be a priority to bring that into regulation. So bearing in mind that the enforcement white paper was I think 2003, we're talking 9 years to bring a relatively small sector into regulation. So we would really urge the government to commit the will and the resources to try and do this as quickly as possible and we think that could be quicker than 2012.

**LEWIS:** So why has the Ministry of Justice delayed these changes, which have been in the pipeline for a decade or more? Bridget Prentice is the Justice Minister who made this week's announcement.

**PRENTICE:** We are setting out new plans which will make it clear when and how a bailiff can enter someone's premises, what goods they can and cannot seize and sell,



and what the fees are that they can charge. The idea of someone entering your house to seize your goods is a very serious one and so it really is important that we get everyone setting up a proper regulatory authority to ensure that bailiffs work to proper standards, that they are professional and that they deal with people sensitively and carefully.

**LEWIS:** You were going to introduce new powers for bailiffs to enter property anyway under the act that you passed 2 years ago. Why are you delaying that for further consultation?

**PRENTICE:** The Secretary of State Jack Straw asked me last year to have a complete reassessment of the provisions of the act. And we wanted to see whether we felt that they were still really appropriate given the current economic climate, and we *don't* think they are appropriate at the moment.

**LEWIS:** Would it be fair to say that looking at that crisis and the effects of it, you've really come down more on the side of debtors being affected by it than the side of creditors being affected by it?

**PRENTICE:** I'm not sure that I would put it quite as bluntly as that. I think what we're conscious of is that it's important to try and give people the opportunity in this very, very difficult economic situation to find their way through and not to push them so far that actually no debt is paid at all.

**LEWIS:** But one of the things we've heard about is from people who are very good at playing the current system. They sit there in the house, refusing to open the door, thousands of pounds in debt. Those debts become unenforceable, don't they?

**PRENTICE:** There is a real problem there. Legitimate creditors right across the board have every right to collect and enforce their unpaid debt. I get as many letters from Members of Parliament on behalf of their constituents about people who need to enforce a debt as well as from people who are in difficulty financially at the moment. There are some unscrupulous bailiffs. There are, as you have just described, some

debtors who think that they might just get away with it.

**LEWIS:** Justice Minister Bridget Prentice. And you can have your say on debt collection, whether you owe money or you're trying to get someone to pay up, on our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox).

The Chairman of the Financial Services Authority set out his plans this week for reforming the way that banks are run and regulated. On BBC television, Lord Turner said there had been what he called "a worldwide intellectual failure" to understand the risks the financial system was running. And he told Radio Four that his own organisation had also got it wrong in the years before he took over as Chairman.

**LORD TURNER:** We got it wrong in the particular execution of the supervision of Northern Rock, and I am also today saying that we were pursuing the wrong philosophy. We were pursuing a philosophy which placed too much faith in rational, self-correcting markets - and, yes, I am sorry that we did that.

**LEWIS:** But Lord Turner's 126-page report on regulating the banks has been criticised for saying very little about customers and how they're treated, and it only hinted at the possibility of regulating some of the riskier products which financial companies have sold us. Kay Blair is a member of the Financial Services Consumer Panel, which advises the FSA on consumer issues. She told me her misgivings.

**BLAIR:** We believe that it's a pretty shrewd analysis of what went wrong, but we as a consumer panel are really keen to ensure that out of this consumers get a better deal; that they can actually begin to trust an industry which has so clearly failed them. What we *don't* want is a regulator that devotes itself to high economic matters to the detriment of ensuring that the industry treats customers fairly.

**LEWIS:** One of its rules is that the financial services industry does have to treat customers fairly. Do you think it's been failing in that?

**BLAIR:** Yes. I think it has concentrated on process rather than consumer outcomes and I think, as some of the FSA's own research shows, some of the results from firms it has examined haven't been too enlightening.

**LEWIS:** Do you mean by that that it's concentrated on the *way* things are sold rather than the products that are actually on the market?

**BLAIR:** And whether consumers actually get a good deal at the end of it. I mean treating customers fairly as a philosophy is not really rocket science. I mean it talks about giving consumers targeted, appropriate products; giving them suitable advice. It's really commonsense and it's very sad that we have an industry at the moment that seems to think that such a philosophy is quite difficult to implement. We also have to be convinced that the FSA in future is going to concentrate on the conduct and behaviour of these banks to ensure that they actually give consumers a much better deal.

**LEWIS:** What will the Consumer Panel be doing over the next few months to make sure that consumer issues are at the forefront of everything the FSA does?

**BLAIR:** We have set up a working group specifically to look at the Turner Review and how we will respond to it. We already have clear priorities in what we want to see happen. We want to see much higher professional standards in the industry. We want to see a conscientious industry that behaves itself. Other things we're looking for: we'd like to see the FSA holding individuals far more responsible for their actions than is currently the case. The FSA supervises companies, it investigates companies, but, as we all know, companies are run by people and we think that there's no point in fining a firm or even closing it down while allowing the boss to move onto a new business and do it all again. So that's something we'll be looking at it.

**LEWIS:** Yes because two directors who were fined have moved to another investment company just this week, haven't they?

**BLAIR:** Well it just seems bizarre, absolutely outrageous really.

**LEWIS:** And would you like to see the FSA naming the companies that it discovers in its research are not treating customers fairly? Rather than pursuing it quietly with them actually telling the public which companies perhaps *are* mis-selling products?

**BLAIR:** We're great supporters of transparency and we have for a long time talked about "naming and shaming companies" because we think that good companies want to see the bad guys being named and shamed, and by naming and shaming the bad guys we're actually improving the industry and the standards in the industry. There has been reticence on this, but it's not something we're going to give up on.

**LEWIS:** Kay Blair of the Financial Services Consumer Panel.

Well one consequence of the global financial crisis was the failure of several banks in the UK: Bradford & Bingley and three Icelandic banks based here, including Icesave. This week building societies are complaining that they are having to share the cost of protecting about £16 billion of the savings in those banks. These individuals were all repaid in full through the Financial Services Compensation Scheme, but the cost of that has to be shared by building societies as well as banks. Altogether Britain's 54 societies will have to find around £600 million between them over 3 years. Well live now to the Corporate Development Director of Yorkshire, the third biggest building society: Andy Caton. Andy, how much is Yorkshire paying out in compensation to the people who had money in these four banks?

**CATON:** In 2008 we took a charge of just shy of £15 million through our accounts. And that actually just represents the first two payments that are due under the FSCS scheme, so there'll be more payments, you know, coming due in future years and potentially also the shortfall on repaying the loan. So, in other words, as these failed banks are run down to repay the loan, if they take losses on their assets that might also flow through into the scheme.

**LEWIS:** Yes. I mean we should explain that the Treasury lent the compensation scheme the £16 billion or so it needed, and what you're paying, you and the banks are paying is just the interest on that loan. But, as you say, at some stage - and we don't

know when - the capital will have to be repaid (or whatever is left) after the banks have been sold, the assets have been realised. So that could potentially be far more than this you say £15 million over the next couple of years for you.

**CATON:** That's correct, yeah.

**LEWIS:** And how would you cope with that?

**CATON:** Well we have to absorb that cost into all the other costs that we have of the organisation. I mean in terms of Yorkshire Building Society, our statutory profits last year would have been something like £23 million had we not had this bill. And of course at the moment interest rates are at historically low levels and what we're trying to do is protect savers from the impact of that drop in rates. If we had to spread the cost of the FSCS bill just for last year across all of our savings members, that would be about .1% off savings rates or about £7 or £8 per average saver. Now we haven't done that and we have no intention of doing that.

**LEWIS:** No. I suppose people might say though that banks and building societies, in a way you are both the same - you take our money where you pay us interest, or relatively small amounts now but some interest. Why shouldn't you share in the risk of one or more of you going bust?

**CATON:** Well I think because we, you know, there's a growing awareness that building societies just simply aren't like banks and we don't run the same level of risks. We have much simpler businesses and fundamentally one of the major problems with the banking sector is it's been too reliant on wholesale funding and building societies restrict themselves and are restricted by law from running those sorts of risks. But, unfortunately, the FSCS bill is based on our market share of the savings market, so we have this ironic position that we pick up a bigger share of the tab for the failure of the banks. Our levy, for example, is roughly three times the size of Northern Rock's.

**LEWIS:** Are you saying then that the prudent organisations like (as you would see it)

building societies are being penalised, and the reckless ones are, if not getting away with it, certainly a lot of the money's being paid by taxpayers ultimately anyway?

**CATON:** Yeah. I'd hesitate to call them reckless, but yes. I mean it's like having a car insurance policy where the bad driver with a proven history of accidents gets to pay less than the safe driver.

**LEWIS:** Andy Caton of Yorkshire Building Society, thanks very much for talking to us.

Well that's it for today. You can find out more from the BBC Action Line - 0800 044 044 - and of course our website: [bbc.co.uk/moneybox](http://bbc.co.uk/moneybox). There you can download a podcast of the programme or just listen to each story again by itself. There are videos to watch and of course you can sign up for my weekly newsletter. You can also email us direct on [moneybox@bbc.co.uk](mailto:moneybox@bbc.co.uk). Vincent Duggleby's here on Wednesday with Money Box Live. This week he's taking your questions on the financial aspects of divorce and separation. Personal finance stories all week, lunchtimes on Working Lunch, BBC2. Today the reporter was Bob Howard, the producer Richard Vadon, and I'm Paul Lewis.