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**MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, it was the week we stared into the abyss, the week of market mayhem and global meltdown which ended with panic stations as the market crash shook the world. We'll be talking about the facts behind those headlines. And what news at the end of the week for savers with Icelandic banks? Not everyone is safe; and those who *are* still face delay and uncertainty. As share prices plummet after their worst week since 1987, we ask what now for our pensions? And a half point cut in interest rates, but some banks are not passing it on to homebuyers.

There's never been a week quite like it. Two retail banks went bust, leaving savers wondering when or whether they'd get their money back. Some of them still are. The Government offered the high street banks a £500 billion package: 50 billion of capital, a total of 200 billion in loan facilities and 250 billion public money to stand behind the loans they make to guarantee them. And then the Prime Minister made this announcement to Parliament.

**GORDON BROWN:** The House will want to know that the Governor of the Bank of England has just announced an immediate half a percent cut in interest rate. He has done so in a coordinated action that is happening round the world in which the US Fed has cut interest rates by half a percent, the ECB by half a percent. The Swiss, the Swedes and other members of the G10 have all cut interest rates showing that global problems are best dealt with by global action.

**LEWIS:** But the hopes of banks and politicians were dashed by the markets. They fell across the world, wiping hundreds of billions of pounds off the value of companies and pension funds. In London the FTSE index of shares in the biggest 100 companies listed there had its worst week for 21 years - more than a 20% fall this week and 40% down over the last year, taking prices back to where they were 12 years ago. And now the leaders of the biggest seven industrialised countries - the G7 - have issued a five-point plan, calling for "urgent, immediate action." Well with me is Howard Wheeldon, Senior Strategist at BGC Partners. Howard Wheeldon, the G countries' statement issued late last night, does it go any way to address the scale of this crisis?

**WHEELDON:** We've got a problem. We're going to do something about it, but we're not quite sure what, I think is the basics in terms of the message that's come out from the G7. Although, having said that, I think it's very useful that the US Secretary Paulson has said that they will follow, the US will follow the UK example and buy into some of its banks. I think that is very useful and that's the most positive thing that's come out from them.

**LEWIS:** So when Gordon Brown said the rest of the world should follow what we're doing, was he right? Is our action more effective than anyone else's?

**WHEELDON:** I think most people would agree that the UK action in terms of what the European … the rest of the European market should do is probably the right thing to do. It's been well received here in the UK and indeed of course the US are also supporting it. So, yes, he is right in this instance.

**LEWIS:** Justin Urquhart Stewart's also here, Director of Seven Investment Management. Justin, banks, markets, currency all in a mess. What's the priority to fix?

**URQUHART STEWART:** I think it's a very clear priority and I think investors should be quite clear as well what this is. First of all, let's put the economy on one side, let's put the stock market on one side, let's get the banking system fixed first.

That is the lifeblood of capitalism. Unless you get that working properly everything else is frankly secondary to it.

**LEWIS:** But we've committed half a trillion pounds. Similar amounts are being committed around the world in various different ways, and yet we still don't seem to have fixed it. How much money does it take?

**URQUHART STEWART:** Well it's going to take time to start with because this is a log jam; and whilst we've had this coordinated approach within the United Kingdom, we haven't had that elsewhere. In fact Europe looked like a bunch of cats in a sack trying to argue who should have the best form of guarantees.

**LEWIS:** And they're meeting again this week, aren't they, this weekend?

**URQUHART STEWART:** Yes and I suspect we'll end up with some more platitudes coming out of that. But it looks as though America - certainly Mr Paulson is moving towards taking further action, so that's encouraging.

**LEWIS:** And Howard Wheeldon, we saw an emergency rate cut this week brought forward, twice as big as normal. Will rates fall further?

**WHEELDON:** Yes, I do think we will see a further rate fall, possibly as early as this week, and that I would imagine is something that was discussed amongst the G7. We didn't expect what would happen this past week, so I think that's their plan b and indeed there may well be a plan c as well.

**LEWIS:** And Justin Urquhart Stewart, we saw a headline staring into the abyss. What is the abyss if this doesn't work?

**URQUHART STEWART:** The abyss is if the banking system fails completely and we end up then with a form of financial chaos, so we can't afford to get it wrong. As Howard's saying, there are alternatives we can do and the final element would be if the Government stepped in and nationalised the entire banking system. We are in nuclear parlance at deathcom 1 in the banking world, I'm afraid.

**LEWIS:** Right. Well no doubt we'll be talking about this again. I don't mean to chuckle, but honestly I don't really know how else to react at times like this sometimes. Justin Urquhart Stewart and Howard Wheeldon, thank you very much.

Well markets are one thing and our money in the bank is quite another, and this week got really bad on Tuesday for more than 400,000 UK savers. Bob Howard has been following their fate.

**HOWARD:** Well, Paul, it was a shocking start to the week for many savers. On Tuesday, hundreds of thousands of people saving with Icesave discovered they couldn't move their money in or out of their accounts. It quickly became clear that this was serious and completely at odds with what we were told on last Saturday's programme just three days before. Then the Chief Executive of Icesave, Mark Sismey-Durrant, offered this reassurance regarding the bank's parent company Landsbanki.

**SISMEY-DURRANT:** They shouldn't be nervous about the state of the bank. Landsbanki is an international bank and we maintain strong liquidity levels.

**LEWIS:** In a word, UK customers of Icesave can be sure their money is safe and they can get it out when they want?

**SISMEY-DURRANT:** Yes, they can be.

**HOWARD:** In fact it transpired that even customers who tried to move money last Saturday had left it too late for the banking system to complete their transactions. Also on Tuesday, as those accounts were frozen, by coincidence the Government raised the capital and payouts from the Financial Services Compensation Scheme from £35,000 to £50,000 to help savers in the event of a bank's collapse. But that wasn’t much comfort for people like Mark from London who’d suggested to his girlfriend that she should put £200,000 into Icesave. They, like many others, spent an agonising 24 hours believing they’d lost a small fortune.

**MARK:** We were talking late into the early hours on Tuesday night and Jill was sitting there nursing a box of tissues just crying and crying and crying. We were talking about the loss of her financial independence. I can’t begin to tell you the thoughts and the devastation that were going through us.

**LEWIS:** And then on Wednesday, frankly to everyone’s surprise, Alistair Darling said on the Today programme that the Government was going to step in to guarantee all the savings of everyone with an Icesave account.

**HOWARD:** Indeed because on Wednesday the Financial Services Authority declared that Icesave had gone into default and to protect savers from two other Icelandic banks - Kaupthing Edge and Heritable - the Government had arranged the transfer of around 180,000 saving accounts to the Dutch bank ING. ING says there are some delays in processing transactions on these accounts, but it expects the backlog to be cleared in the next few days.

**LEWIS:** So, Bob, why couldn’t the Government just transfer Icesave accounts as well to another bank?

**HOWARD:** Well, Paul, the Treasury told me Kaupthing Edge and Heritable were incorporated in the UK, so the Government had special new powers to transfer accounts if they went under. But Icesave was *not* incorporated in the UK. It was in fact a branch of the Icelandic bank Landsbanki, so their accounts couldn’t be transferred. Instead Icesave customers will get all their money back from the Treasury through the Financial Services Compensation Scheme.

**LEWIS:** So relief all round?

**HOWARD:** Well, Paul, this good news has been tempered with anxiety over how people can pay for things like essential bills without immediate access to the interest from these savings. To pay his rent, Fred from Surrey's been relying on interest from money he invested in his Icesave account.

**FRED:** We're very relieved and grateful for the Chancellor and the Government to act in the interests of British savers in this bank, but we're still worried about how long it's going to take to get the money back. The rent is due towards the end of this month and so we're very concerned. It is very worrying.

**LEWIS:** So money safe but problems still continuing. When will savers get their money back? Earlier this morning, I spoke to Jonathan Clark, Director of Claims at the Financial Services Compensation Scheme.

**CLARK:** What we're doing at the moment is working with the UK authorities and also with the Icelandic authorities to establish the best process for getting savers their compensation entitlement. We do have to recognise the Icelandic funds responsibilities, our own obligations and the Chancellor's announcement.

**LEWIS:** Does that mean that despite the Chancellor's assurances that no-one would lose any money, there's going to be a delay trying to get some of the compensation from Iceland?

**CLARK:** We do have to recognise the Icelandic funds responsibilities, but we also have to reflect the Chancellor's announcement in which he has guaranteed savers that their money is safe.

**LEWIS:** Are they still accruing interest on their account, or has that now stopped?

**CLARK:** Certainly we're looking at the terms and conditions of each of the contracts and interest is payable up until the date of the default - the scenario that we're looking at and will be providing further advice upon.

**LEWIS:** So interest should be paid at least until was it the 8th October?

**CLARK:** That would be my understanding, yes.

**LEWIS:** And what about ISA's? People are very concerned that if they have an ISA, they will lose their ISA status, their tax free status.

**CLARK:** I think we're aware of that particular issue and again it's something that we're working on with the authorities to come up with a simple and effective solution.

**LEWIS:** Can you give us *any* idea when or how people will get their Icesave money back? Are we talking days or weeks or months?

**CLARK:** Well I think it's a little too early to say. There are some operational things that we need to do. But fundamentally I think we need to reach an agreement with all parties as to what's the most effective and simple way to get savers' money to them. We'll provide an update towards the end of next week and we'll communicate directly with savers as soon we're able to.

**LEWIS:** Jonathan Clark of the Financial Services Compensation Scheme. And we'll keep you in touch with how that develops.

Now with the Internet banks Icesave, Heritable and Kaupthing Edge, people will get all their money back at some point; but that *isn't* true for people who put their money offshore with Landsbanki Guernsey and Kaupthing Singer and Friedlander on the Isle of Man. Money Box's Lesley McAlpine's here.

**McALPINE:** No, Paul. If your money is in these accounts, you're *not* covered by the compensation scheme either in the UK or in Iceland and the Treasury's told us that the Chancellor's statement does not apply to these accounts. Instead you have to look to the scheme in the offshore country. In Guernsey, officials currently have no compensation scheme in place. There may be one by November, but it may not help people who've lost money before that date. Landsbanki Guernsey's in administration and the administrator has told us "there's significant liquid funds available and we're doing everything we can to enable a part payment to depositors to be made as soon as possible." But the administrators, Deloitte, wouldn't tell us how much savers might get back or when.

**LEWIS:** And what about savers in Kaupthing Singer and Friedlander on the Isle of Man? This morning I spoke, on a rather bad phone line, to Barbara Segal from Manchester who now lives in Sri Lanka and has her life savings of nearly £200,000 in Kaupthing.

**SEGAL:** Like most people here, I live off the interest. I have in one account £187,000 of my life savings and in a current account I have £6,500 which I use for emergency money here, for quick money, something like that. I just don't know what to do. I have absolutely no money! If you can't trust a bank, what do you do - keep it under your bed?

**LEWIS:** That was a listener from Manchester who lives in Sri Lanka with her savings in the Isle of Man. Lesley, what can Barbara hope for?

**McALPINE:** The bank's in liquidation. A compensation scheme up to £50,000 did come into force on Thursday and will cover people with savings in Kaupthing up to that limit. Savers though with more than £50,000 have to rely either on a guarantee made by the Icelandic government last November to cover all deposits, which may not be enforceable, or wait for a share of whatever assets the liquidator finds.

**LEWIS:** Thanks, Lesley. So in both cases savers face a long and anxious wait to find out what they'll get and when. Links to all the information we have on our website, bbc.co.uk/moneybox.

Now it's been made painfully clear to savers how the global economic maelstrom has affected them, but people paying into pensions may not realise how badly their funds might have done. Pension funds are generally invested in shares and, as we've seen, shares have been plummeting in value; and if the value of our pension pot falls, that cuts the pension it will buy. If retirement is close, that can affect us for the rest of our lives. I asked Nigel Peaple, Director of Policy at the National Association of Pension Funds, how serious the problem was.

**PEAPLE:** We think that over the longer term the falls won't have too great an impact. This is because, as you know, pension funds are about long-term investing - people putting away money for many decades. The precise impact will of course depend on which type of pension you've got - whether you've got a salary related pension or a money purchase pension - and in reality most people have a mixture of those. If you've got that first type, linked to the value of your salary, then in fact it's the employer anyway who will make up any market falls.

**LEWIS:** But that's going to encourage employers, surely, to pull out even more rapidly from salary related pensions?

**PEAPLE:** I think there's no doubt that if we go through a prolonged period of economic recession, the pressures on company sponsors of pension schemes will grow and they may review their ongoing provision. But of course in many ways closing the scheme to new members doesn't really solve the problem because most of the cost of those schemes are locked up in past liabilities - i.e. the pensions of former employees.

**LEWIS:** But for people paying into what you call the money purchase schemes where they have their own little pension pot that they pay money into and their employer pays in as well, much of that money is invested on the stock market, isn't it, and it's now worth 40% less than it was a year ago if it follows the average movement of share prices?

**PEAPLE:** It's certainly the case that most money purchase pensions are invested in the stock market, as you say, but that is the nature of equity investment: they go up and down over the years and all past experience suggests that over reasonable periods of time they grow significantly. Now for most people, they are of course many years away from retirement, so for most people they should be able to see their pot recover. I would like to say that for the people who are closer to retirement, these people *do* run the risk of their pot falling. However, according to our own surveys - and our most recent annual survey came out a couple of days ago - 80 to 90% of people are in things called ‘lifestyle’ funds, which means that in the final 10 years before retirement, they’re switched out of equities, which are very volatile, and into things like bonds and cash, which are more stable. So we believe that most people, even in money purchase schemes, either will have a long time to make up any losses, or if they’re close to retirement will actually already not be in stock market investments.

**LEWIS:** But there are a significant number of people who aren’t in those lifestyle funds, aren’t there, particularly people who’ve been paying into a pension for many years, and they may well find that they have little choice but to put off retirement if their fund is now worth even 25% less than it was a year ago if they are approaching retirement?

**PEAPLE:** Well I would just say that we do think that about 90% *are* in these lifestyle funds, but I totally accept it’s true that for a minority of people they may still be fully in equities. Now, yes, in extreme cases some people might decide they want to go on working a year or two more, or even instead that they just wait and allow those investments to recover in the next few years.

**LEWIS:** Nigel, I mean you do represent the pension funds. Do you think you’re sounding a little bit complacent about the safety of our pensions? We have a lot of people getting in touch with us who are very worried indeed.

**PEAPLE:** I come back to my sort of initial point. Pension funds are about the long-term. Therefore there are many years ahead for most people for the funds to recover, there are many safety valves in the system. Certainly at the pensions conference I’ve just been attending, the feeling was very much that it would be sensible for people to leave that money invested and wait for investment and growth to return in the future.

**LEWIS:** Nigel Peaple. Well most of us convert our pension fund into a pension by buying an annuity, a pension for life. With me is Stuart Bayliss, the Managing Director of independent financial advisers Annuity Direct. Stuart, one question that worries people in all this global turmoil: if they've already bought an annuity, is that 100% safe? What if the company goes bust?

**BAYLISS:** The annuity is covered - the first £2,000 plus 90% of the rest - and in reality that equals about 98% of the average annuity. So as the scheme will cost 5% to run, another company will pick up those assets and pay your annuity, and that's been seen with Equitable over the years etcetera, etcetera.

**LEWIS:** And what about those people who've deferred buying an annuity - what's called drawdown? Now they use some of their fund, but they just take it out; the fund still sits there. What should they be doing in these times?

**BAYLISS:** Well they really need to take advice and review their position because since 2006 they've been able to take extra income; and because their funds have been doing quite well - and most of these people have got significant stocks and shares investments - they have been tending to take higher income. And let's say they were taking 8% - they were 65, they were taking 8% .That's now equivalent to say 11.2% if they were in stocks and shares and had fallen by 40%. So they need to look at saving that because if they keep drawing their chances of their fund recovering are very, very much diminished.

**LEWIS:** So they are the ones who think they may *not* be affected, but in fact they've got to take some action now.

**BAYLISS:** Yeah.

**LEWIS:** And the other group of people who are concerned about this - and I talked about them with Nigel Peaple there - is people approaching retirement. They may be thinking well, gosh, my fund's now worth maybe 40% less than it was a year ago. Should I defer retirement, work a bit longer?

**BAYLISS:** Well this group of people, as Nigel said, quite a lot of those have ended up in bonds and cash. Those people can proceed and look at buying an annuity as normal. Annuity rates are actually one of the beneficiaries of the credit crunch. They're at 6 year highs and they're not likely to be sustained at that level for long. But the other group of people are those who are in with-profit funds. And with profit funds, as you know, bring about the reality of stock markets slower and bonuses have not reduced that much so far, but they will be reducing in the future almost inevitably as that reality comes through, so they should take their benefits.

**LEWIS:** So those groups should take their benefits and buy an annuity because it might be better than if they waited, but there will be a group who've just got their money in shares who are going to see a big fall?

**BAYLISS:** Yeah, they need to find somebody to talk it through with, find an adviser and review their situation. They might have some cash. They need to look at their *whole* financial situation. They might even have to work a bit longer. The one thing I would urge everybody not to do is just do nothing and stare at the crisis.

**LEWIS:** Yes or just do what the insurance company says and buy the annuity from them immediately.

**BAYLISS:** Exactly.

**LEWIS:** Think about it, get advice. Stuart Bayliss of Annuity Direct, thanks very much.

Well desperate times need desperate measures is a sort of paraphrase of what the Prime Minister said anyway and the Bank of England joined in on Wednesday cutting the bank rate by half a percentage point down to 4½ %. The decision, as I said earlier, was a day before it was expected and it was coordinated with half a dozen banks around the world, and it came just as Parliament was hearing the details of that big rescue package - £500 billion available to the banks. So you might think that the banks would react to that generous package by cutting the cost of mortgages as the bank rate fell. Let's go live now to Derby to talk to Rob Clifford at brokers Mortgage Force. Rob, has this half point cut been passed onto borrowers?

**CLIFFORD:** It has by many lenders, Paul. In fact I was very pleased to see lenders like Halifax and Woolwich doing so; and in fact First Direct in line with its consumer champion brand moved by the full half percent immediately and borrowers benefit immediately because of their system. So many lenders did, but the majority of lenders are still sat waiting to make their announcement.

**LEWIS:** And of course even those who have announced a cut in the standard variable rate as it's called, the sort of default rate, that doesn't mean all the good deals will have that rate cut in them, does it?

**CLIFFORD:** No, that's right. A third of the 12 million UK households with mortgages are on tracker mortgages and they *will* benefit from the half percent cut, but 7% of borrowers are on lenders' standard variable rates, as you pointed out, and they could be disadvantaged if lenders decide not to pass on the cut, and also new products are not likely to have the full half percent benefit.

**LEWIS:** Yes because I think Abbey hasn't passed it on at all, has it, to new borrowers?

**CLIFFORD:** That's true, so Abbey has said that existing tracker customers will of course see rates drop because your rate is pegged at a Bank of England base rate to some extent, but new rates will remain the same for new customers because short-term variable funding costs have *not* reduced. And I think we'll see several lenders refusing to pass on the full half percent benefit to new customers.

**LEWIS:** And even if they appear to, the customers may find that the arrangement fees - what is really in effect interest up front - goes up?

**CLIFFORD:** It's still a problem, you're right. There are limited options for first-time buyers, in particular, and buy-to-let customers, and lenders are being much less flexible, very picky in fact. So it's very important people get mortgage advice to find the right deal. It's still difficult to get a mortgage for many people.

**LEWIS:** Yes because we've been hearing that the best deals are only available to people who've got at least 25% deposits. That really cuts out most first time buyers. Are they going to find anything easier now that the Government has made this money available to the banks?

**CLIFFORD:** I think we will see provisions for first time buyers get better, Paul. I think we'll see that happen in the next 3 to 6 months. Buy-to-let borrowers though do have a problem in that many of them borrowed right up to 90% of the property value with just a 10% deposit or less and that's going to be very difficult to refinance.

**LEWIS:** And I know it's difficult to predict anything at the moment, Rob, but over the next few months where do you think the mortgage market's going to go?

**CLIFFORD:** I think we can expect to see another Bank of England base rate cut. I'd like to see it go to 4. I think we'll see the market become more fluid for first time buyers and I think we'll see rates getting better and more attractive for the mass market. But, as I say, the problem area may be folk with smaller deposits, people wanting to borrow high amounts.

**LEWIS:** Rob Clifford from Mortgage Force, thanks very much. And, Bob, more criticism of Payment Protection Insurance?

**HOWARD:** Yes, Paul. PPI, as it's known, is typically sold alongside a loan and provides cover if the debt repayments cannot be met. A report this week by the Competition Commission strongly criticised the PPI market after a flood of complaints over alleged mis-selling. They found there's little competition between providers and there's little scope for customers to search for alternatives and switch products. The Commission will make its final recommendations later this year.

**LEWIS:** Thanks very much for that, Bob. Well that's it for today. There's more, as ever, from the BBC Action Line - 0800 044 044 - and of course our website, bbc.co.uk/moneybox, where you can download a podcast of the programme. And you can also send us your comments and questions on the financial crisis we've been discussing. There's a special Money Box live tomorrow night when we'll be asking how safe are our savings as the financial world seems to collapse about our ears. We'll have experts here and we'll have you: we want your calls and emails. Details on the website and from the helpline. On Monday Money Box Live takes questions on the credit crunch and small businesses. The editor of Money Box is Stephen Chilcott and I'm Paul Lewis.