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MONEY BOX

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LEWIS: Hello. In today’s programme, a company stops selling ID theft insurance after an investigation by the FSA. Is ID theft insurance worth having? A committee of MPs says the big high street banks hide the true cost of banking and make it difficult to change from one to another. Junior ISAs will start in November for all children who do not have a Child Trust Fund. Up to £3,000 a year can be put in. The cost of prescriptions is up in England as Scotland joins Wales and Northern Ireland as a free prescription zone. Just a few hours left to buy your stamps at the old price. And the true cost of borrowing £1200 over a year.

But we start with that news that the FSA is investigating a company called CPP that offered insurance against ID theft. The firm has been contracted to activate or record delivery of debit and credit cards by many banks, including Barclaycard, NatWest RBS and Santander. In November we highlighted concerns that customers were being persuaded to buy this sort of insurance by being told that any losses wouldn’t be covered by their bank. Bob Howard has been following the story since we first broke it. Bob?

HOWARD: Well Paul, Money Box received scores of emails from unhappy customers when we first covered this last year. Many were angry that when they phoned to activate or record the delivery of cards, they expected to speak to their bank, not be sold a product for more than £80 by a third party company. Jane from Devon said she was given a determined ten minute sales pitch.

JANE: What she was saying was that identity theft was extremely common; that thousands and thousands of people suffered from identity theft and that unless I guarded against it by insurance, I would be responsible for these debts. But rationally I knew she was wrong. I know that if someone fraudulently accesses my bank account, the bank will cover me.

HOWARD: At the time CPP admitted to Money Box that some of its staff may have wrongly told customers that their bank will not cover them if they are the victim of fraud. But the firm's Shirley Woolham told Money Box in November it had systems in place to make sure their products were sold correctly.

WOOLHAM: Our quality assurance team listen to over 6,000 independent calls every single month. On top of that, we have independent research tracking processes in place where we monitor customer satisfaction with a service that we provide. In fact we ask those customers who buy the service what they think about it and in those instances 90% say they're satisfied.

HOWARD: At the same time, we also put these concerns about CPP's sales techniques to the banks, which of course CPP works on behalf of, and asked if they were at all worried. None would be interviewed, but they said they would look into any individual complaints. Now last month we did finally get to speak to a bank executive about this - Brian Hartzer, Chief Executive of UK Retail Banking at RBS NatWest - and you, Paul, pressed him about the experience of one listener.

LEWIS: Let me just read you what one listener has sent us. Rang up to activate a credit card from NatWest. The reply was, "Do you have insurance?" He said, "No". NatWest said "You'll be liable if someone steals your identity" and the customer said, "No, that's between the bank and the fraudster". And NatWest said, "No, you will be liable". None of that's true, is it? It's just a way to sell ID theft insurance to people that they don't really need.

HARTZER: Well I'm sorry to hear that that was what they heard. That's certainly not the intention of the type of conversation that should be going on, and if you want to send me off the air a specific example, I'd be happy to look into it.

LEWIS: So, Bob, that was Brian Hartzer from NatWest. What action is the FSA considering now against CPP?

HOWARD: Well, Paul, the FSA has refused to comment at all on this investigation, so all the information we have comes from a statement CPP put out itself. In it, it said the investigation relates to alleged failings in sales calls, specifically the insurance offering against ID theft, which it will no longer be offering. It's suspended all new sales of identity protection and says it's looking into whether it may need to compensate some customers. The firm says it's already developing a replacement identity protection without an insurance element, which it expects to sell in around 6 weeks time. And of course, Paul, it's the insurance element which allows the FSA to regulate this product. You can see how serious this is for the company if I tell you CPP's shares initially plunged almost 50% on news of the FSA investigation.

LEWIS: And what did CPP tell Money Box, tell you Bob?

HOWARD: Well it said identity theft is a very serious issue and it maintains the highest levels of integrity and of treating their customers properly.

LEWIS: So are bank customers in future likely to be sold this new insurance free product?

HOWARD: Well that's a good question, Paul. The banks have been very cautious indeed in what they've been telling me about their past and future dealings with CPP. NatWest RBS said it would continue to use CPP to record safe delivery of cards, but it was keeping its relationship under review. Santander said much the same thing. Whereas Clydesdale Yorkshire said with minor exception, CPP has met the highest service levels it expected. Barclaycard told us back in November it was investigating customer complaints. But when we asked for the results, it refused to tell us, only saying it was keeping the situation under review.

LEWIS: Thanks, Bob. Well with me is James Daley, the Money Editor at Which? magazine. James Daley, why do you think the FSA has chosen this moment now to launch this investigation?

DALEY: Well I think there's been mounting pressure on them over the last few months. We at Which? have been looking into this and raised concerns. And I think the story that you broke last year played a big part in this, revealing that when people were calling up to activate their card, they were actually being passed over to CPP and then given the hard sell on ID theft insurance. You know that certainly set alarm bells ringing at the FSA, and we're delighted that for once actually they've stepped in early and perhaps caught something before it's ballooned into a big mis-selling scandal.

LEWIS: And as a customer, I get a credit card. I'm given a number to ring, which I expect to be my bank or the credit card provider. I ring it. I get through in fact to CPP. If I was to be mis-sold something or have a complaint, is that against CPP or is in fact the bank or credit card provider liable?

DALEY: Well that complaint really should be against the bank or the lender because they're appointing CPP to activate your card and sell you that policy on their behalf. And I think you know that's why all the banks are being quite quiet about this at the moment because they're trying to work out what the impact of this is going to be.

LEWIS: Yes, they're trying to look at what effect it can have on them. And of course that's the first step: you're put through to someone you're not expecting. And then of course we've had these complaints - and we heard another one from our listener there today - about the hard sell. Presumably that is what the FSA will be looking at - exactly how this insurance is being sold?

DALEY: Well absolutely. I mean as your listener rightly pointed out, you are covered completely if you are a victim of fraud. Your bank will cover you. It's one of the few areas in fact where there is excellent consumer protection in the UK, and you know any insinuation that bank or CPP staff were telling customers that they weren't covered you know is certainly going to worry the FSA and that's what they're going to be looking at.

LEWIS: Yes, I mean that's simply an untruth. But of course there's also the hard sell. They're trying to persuade you with other things, just not letting you off the line.

DALEY: Sure.

LEWIS: And of course CPP and others have said to us, some listeners have said to us there's actually something worth having here because you are getting access to your credit record, you're getting someone to help you. And ID theft can be a very frightening thing if a few hundred pounds or few thousand pounds goes out of your account.

DALEY: Oh absolutely. And I think the one thing that could be of value you know is a dedicated advice service. Disentangling yourself from ID theft can be a bit of a messy business. It comes down to you proving to your bank that you are who you say you are, so having someone that knows the lie of the land and how to help you get out of that is useful. But whether or not that's worth £70 or £80 a year, we really doubt. And we've seen, CPP itself has told us, there's only 0.5% of people who are making claims on these policies every year, so it is still pretty rare.

LEWIS: Yes, so it's 80 odd pounds for a 1 in 200 chance of actually needing something. And do you think the banks … You said you thought they were being cautious now. Do you think they'll be happy to sell a non-insurance product whatever that might look like, which of course will mean there is no FSA regulation of it because there'll be no insurance element?

DALEY: Well I mean I think they'll certainly be looking at it, but they're going to be cautious now having been pulled up by the FSA and probably make sure you know the FSA is behind it.

LEWIS: Yes because of course they have to treat their own customers fairly whatever the people they contract out to do.

DALEY: Absolutely, yeah.

LEWIS: James Daley of Which?, thanks very much.

And still with the banks, there's a report out this week that says the high street banks hide the true cost of banking and make it too difficult to change from one bank to another. That means competition doesn't work. And the fact they're too big to fail also means new competitors find it hard to challenge them. Well those conclusions, which I must say we've heard a number of times over the last few years, are from a report by Parliament's Treasury Select Committee published this morning. I asked Conservative MP for Chichester and the Committee Chairman Andrew Tyrie what changes he wanted.

TYRIE: The first thing we've got to do is get the regulators, the financial regulators to concentrate much more on competition than they do now. We have a very high level of concentration in the market - 85% of personal bank accounts are in the hands of five banks; and SME lending, small business lending is in the hands of four, basically about 80%. If I were to ask you how much have you been paying for your bank this past year, this past 5 years for the services you buy from your bank, you wouldn't have a clue. This phrase 'free banking' that is used is itself extremely pernicious because it gives the public the impression that there might be something that they're picking up for nothing, which of course they're not. Free banking is a myth and it is itself a barrier to entry and competition in the market.

LEWIS: You say it's a myth, but I'm sure a lot of our listeners will be thinking but I don't pay for my bank account, it is free. If I don't go into an overdraft, I get all the services I want free - standing orders, cheques, taking money in, paying it out, keeping it safe. We don’t pay for any of that, do we?

TYRIE: Ah those kinds banks, you know. They’ve gone to all that trouble to create themselves in their current form just so that they can offer you a free banking service. I don’t actually think the public believe that themselves when they think about it for a moment. They pay for their current accounts because the bank makes money on the deposits which they don’t pay a rate of return on, and of course they also make money because they cross-subsidise between various things that they sell you. What I want is those cross-subsidies visible, so people can see how much they’re paying for each service, and I want people to know how much they’re really paying for their current account. Once customers know that, they can choose between providers.

LEWIS: Once people know the price of their current account, you say that that will encourage them to look at other alternatives and maybe move their account. Switching your account though can be difficult, can’t it, and very, very relatively few customers ever do it?

TYRIE: Well you know it’s been a very big problem for a long time. There was the Cruickshank Report (as it’s called) on this 10 years ago, which set out a number of things that needed to be done to secure easier switching, and to their credit the banks have done some of these things. But frankly you won’t get enough switching until people have a motive to switch, and they won’t have a motive to switch until they know what the price of the product is. If you didn’t know when you went into Sainsbury’s and Tesco what the prices were, you wouldn’t really mind which one you went in.

LEWIS: Andrew Tyrie MP, Chair of the Treasury Select Committee, on that report published this morning.

Children who missed out on the Child Trust Fund will be able to have their own tax free ISA from November. Dubbed Junior ISA, it takes contributions of up to £3,000 a year from parents, kind relatives, indeed anyone at all. The cash though will be locked up until the child reaches 18. I asked Treasury Minister Mark Hoban why he'd done it.

HOBAN: Well what we want to do, Paul, is to have a new product which will encourage young people and their families to save for the long-term, and it will enable people to have both a cash ISA and a stocks and share ISA for their children. And the annual contribution limit is £3,000 a year. It will be locked up until the young person reaches the age of 18, and at that point it will flip over into a normal ISA but obviously it will be available for them to use.

LEWIS: So who can put money into it?

HOBAN: Well pretty much anybody actually can on behalf of … Either the child themselves can put money in, their parents, their grandparents. If you have a child in care, the local authority could put money in as well. So you know it's very accessible and it's a very simple and straightforward product for people to use, and of course it builds on the ISA.

LEWIS: You say in cash or stocks and shares. Is it a sort of once and for all choice like it is for Child Trust Funds - that you have to have it all in one or all in the other?

HOBAN: No, you can actually contribute into either in the year, so it's quite flexible.

LEWIS: So you can in effect have two ISAs - a cash ISA and a stocks and shares ISA?

HOBAN: But limited to the £3,000.

LEWIS: And there is a difference then isn't there with this because with an adult ISA, the ordinary ISA, people can move money from a cash ISA into stocks and shares, but they can't move it back? But in this case they can, can they?

HOBAN: I think there is a bit more flexibility perhaps than an adult ISA. What we want to do is have a product which attracts people to save and actually is easy for banks, building societies and others to offer as well to their customers.

LEWIS: I mean it's attractive to people who've got money to put into their children's savings, but of course, unlike Child Trust Funds, there's no government contribution, is there? Doesn't that mean it's just really something for wealthy families to shelter a bit of money away from the taxman?

HOBAN: We can't afford to continue with the Child Trust Fund, so we have to I think provide something different as a route for people to save. And clearly there will be families on a wide range of incomes who do want to put money away for their children. That's one of the reasons why you know I'm pleased that the indications from some of the providers is that the monthly contribution will be as low as possible to give that flexibility to families perhaps who can't afford to put lots of money in.

LEWIS: And what about the attraction to individuals? You say providers want to provide them, but what about parents? Are they really clamouring for this? Do you have any targets, for example, as to how many people you'd like to see signed up?

HOBAN: I'm not going to be bound by a target or say I've got a particular idea about how many people we're going to get in this, but we know a lot of parents do save for their children already. I think this is a product designed specially for parents and children, which I think will prove to be attractive.

LEWIS: Treasury Minister Mark Hoban. The friendly society Family Investments offers Child Trust Funds. I asked Chief Executive John Reeve if they would offer Junior ISAs too.

REEVE: Well it will certainly be a stocks and shares version. We are looking into the possibility of also offering cash.

LEWIS: What's the minimum amount people will be able to put into your stocks and shares ISA?

REEVE: We're going to start at £10 a month, which is the same as we have with the Child Trust Fund.

LEWIS: And what will you charge on that fund?

REEVE: Well that's yet to be decided, but I think the Child Trust Fund at 1.5% will be a similar marker for the savings levels if they remain at around about £25 to £30 a month on average, which is our experience.

LEWIS: It does sound a big percentage charge though because you can get a tracker fund in an ISA for as little as 0.5% or even less, can't you?

REEVE: You can indeed, but in those cases you're talking about substantially greater sums of money than something like £25 a month. We will obviously be looking at the marketplace and we'll be making that decision, so we haven't finally decided at what price we will level the charges.

LEWIS: And what sort of investment will the stocks and shares ISA be? Will it be a tracker that just tracks the stock market or will it be something slightly more risky or slightly more imaginative, you might say?

REEVE: *(laughs)* I think we'll probably start with having a fund which tracks both the stock market in this country and stock markets overseas, which is similar to what we have with the Child Trust Fund.

LEWIS: And what sort of forecast will you be able to make of how that might grow?

REEVE: I think that's a very difficult thing to say over an 18 year period. We've looked at what it might be if it grew at 5% after charges and that would produce on a

£25 a month or £300 a year contract about £8,800 over 18 years.

LEWIS: The government's issued its proposals, but there is a short period of consultation. What changes or what developments would you like to see before the final rules are published in the summer?

REEVE: Well one thing we would like to see is the option for parents to actually defer the maturity of one of these Junior ISAs beyond the age 18 because although the child may well use it for educational purposes and going to university, there is a natural reserve amongst parents of saving too much money which becomes instant access to a child at age 18. I think if they can defer maturity to age 21 or perhaps a little later, then I think they'll be more confident that they can work with the child to make the best use of the saving.

LEWIS: John Reeve of Family Investments with a controversial idea there. And you can let us know what you think about those Junior ISA plans through Have Your Say on our website: bbc.co.uk/moneybox. Is 18 too young? Money Box has done its own survey of which providers will be ready to launch a Junior ISA on 1st November. As well as Family Investments, Lloyds, Nationwide Building Society and Fidelity are planning to launch on that date. Others are still studying the small print, but I expect quite a lot more. The Child Trust Fund limit will also rise to £3,000 around November, the annual limit, and a child who's eligible for Child Trust Fund cannot also have a Junior ISA and vice versa, though of course at some point in the future they may be merged.

Now April is the cruellest month and it started early with two significant increases in the price of things we have to have, though only one affects people … one only affects, I should say, people in England. Ben Carter has more.

CARTER: Yes, Paul. On Friday NHS prescription charges in England rose by 20 pence to £7.40 per item. But good news if you live in Scotland as on the same day it joined Northern Ireland and Wales in giving free prescriptions to all.

LEWIS: And at £7.40, Ben, an item people in England are paying a lot for if they're ill?

CARTER: Yes, but it should be pointed out that in fact 50% of people who get prescriptions are actually exempt from paying for one reason or another. And because those who are exempt are also the most likely to need a prescription, 90% of items which are prescribed are given free of charge. In fact we worked out that if all exemptions in England were scrapped and everyone paid a flat fee, you would only need to pay 74 pence per item to raise the same amount of money. But most groups lobbying on this just want to see charges scrapped as they have been in the rest of the UK.

LEWIS: And also, Ben, a big rise on Monday in the cost of posting letters throughout the UK.

CARTER: Yes from Monday the cost of a 1st class stamp rises 5 pence to 46 pence. That's an increase of 12%, which is well ahead of inflation. But Royal Mail say the price needs to rise to fund six day a week collections. And looking at a list of other countries in Western Europe, our first class stamp is cheaper with the exception of Ireland.

LEWIS: Thanks, Ben. And there is still time to rush out and buy those 1st and 2nd class stamps at the old price before Monday's rise. And remember you can use them at their new value on letters and parcels even for abroad to make up higher postage rates.

Last week on Monday Box Tim Harford of Radio Four's More Or Less asked a question about borrowing £1,000 for a computer and paying back either 12 monthly instalments of £100 or paying back £1200 at the end of a year. Which is cheaper or are they the same? Here's Tim.

HARFORD: The right answer is that choice A, the monthly repayment, is actually substantially more expensive than choice B - paying everything off at the end. And that's counterintuitive. The reason is the monthly repayments, you're immediately starting to pay your loan off. By halfway through the year, you've paid about half the loan off. By the end of the year, you've paid the whole loan off. So on average your loan is about half as big and yet you're still paying the same total interest free payments of £200. So if the loan's about half as big and the interest payments are £200 either way, the actual interest rate is about twice as much. It's a huge difference, but it's completely hidden by monthly repayments. I suppose there's a really intuitive way to grasp this, which is companies seem to really like monthly repayments, so there must be something in it for them. And there is.

LEWIS: Somebody might also think though that well I'm paid monthly. I'm never going to have £1200, but £100 a month, I can afford because that comes out of my monthly pay.

HARFORD: Yeah, it's a very convenient way to repay. It's a commitment. You know that as long as you make those monthly repayments, by the end of the year you will have paid for your computer. A company could if they were feeling very generous offer you an implicit monthly repayment that actually gave you the same sort of interest rate as the 20% APR loan. Instead of £100 a month, it was - I can't do it in my head - maybe it's £95 a month or £90 a month. You could be offered that monthly structure at a more competitive rate, but of course if consumers don't demand that - and they don't - companies are unlikely to volunteer.

LEWIS: Tim Harford. And if you did such a deal, the lender would have to show you the interest you pay as an APR. Choice B, paying at the end of the year, is a straight 20% APR; whereas deal A, paying £100 a month, has an APR of 41.3% - as Tim said, twice as much. So although we might think they're pretty similar, the maths tells us one is twice as expensive as the other. More or Less on Fridays at 1.30 here on Radio Four. And before we go, Ben, there's news of a major announcement on the state pension next week.

CARTER: There is, Paul. As you know, the government is planning to change the state pension, combining all the complex bits of it into one flat rate pension paid to everyone who qualifies. Money Box now understands that an announcement is expected on Monday afternoon. The pension will be about £140 a week in today's terms, but that could mean around £155 by the time it begins in 2015/16. It will not be paid to anyone who has reached pension age before that start date, and people who reach pension age after that date will still need a certain number of years contributions to get it in full. The Chancellor said in his Budget that it would not cost any more than the current system and it will involve a rise in national insurance contributions for people in salary related pension schemes.

LEWIS: Thanks Ben. And next week we hope to be able to analyse those plans in detail. A lot of you are emailing us about them already. But that is just about it for today. You can find out more from our website: bbc.co.uk/moneybox. Sign up to my weekly newsletter, listen again to the programme, send us your ideas and have your say on Junior ISAs. Later this month we're doing a special programme on pensions. If you paid into a company pension and left before 1975 - left the company, left paying in - we'd like to hear from you. And if you retired before the mid-1990s and got a pension that wasn't inflation proofed, we'd also like to hear from you. Email us: moneybox@bbc.co.uk. I'm back on Wednesday with Money Box Live, this week taking your questions on state benefits. Back with Money Box next weekend. You can read my money thoughts whenever I'm awake on twitter@paullewismoney. Some of you are emailing to say CPP is still giving them the hard sell as they activate their credit cards. More on that, I'm sure. Today the reporter was Ben Carter, the producer Bob Howard. I'm Paul Lewis.