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MONEY BOX

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LEWIS: Hello. In today's programme, sharp practice and murky pricing. That's the charge against the insurance industry in a report that says it could be costing newly retired people a billion pounds a year. That's between them obviously. Bob Howard's here looking at who pays for security checks when you start a job.

HOWARD: Should the employer foot the bill, or the employee?

FEMALE GRADUATE: I have been left feeling that I am being taken advantage of by companies who are well aware of how difficult it is to find employment.

LEWIS: A new campaign is launched to make the charges on investment funds a lot clearer. We'll be hearing from both sides. And problems with PayPal: one man's fight to get his money back even after a fraudster admitted all to the police.

But we start with that "sharp practice and murky pricing" of the multi-billion pound insurance industry that converts people's savings into a pension for life. Now sharp practice and murky pricing are not my words, of course. They come from a report by the well respected National Association of Pension Funds and the Cass Business School. The report claims that each year newly retired people are being short-changed by up to a billion pounds between them. That happens because the insurance industry

sells them poor value and often inappropriate annuities, which is a pension income for life. We've covered the problems before on Money Box of buying annuities, but this criticism is pretty strong and comes from within the pensions industry. And with me is Joanne Segars, the Chief Executive of the National Association of Pension Funds. Joanne Segars, sharp practice is pretty strong language. It can even mean trickery. What evidence is there for that?

SEGARS: Well we found in our research really quite substantial examples of really inappropriate practices, so you know rates offered that were 20% lower internally for annuities than available if somebody was prompted to shop around, for example.

LEWIS: When you say "internally", you mean their own customers would get less than people who came from outside?

SEGARS: Exactly and rates manipulated downwards for small pension pots in the knowledge that actually lots of those pots would tip over into those internal providers. So all of this is really giving very bad customer outcomes.

LEWIS: So if you've got a small pension pot, you get less per £1,000 than if you've got say £100,000 in your pension pot?

SEGARS: Well that was certainly some of the findings that we had.

LEWIS: You also complained about commission being taken out of the customer's annuity even if it was never passed onto anyone. How does that happen?

SEGARS: Well what we found was that even where annuities were execution only, somebody went onto a website just to buy an annuity or the annuity did tip over from your pension provider into the annuity, that people would be charged around about on average 2%. So on a typical sort of £30,000 pension pot, that was £600 a year that was going to the provider and not into somebody's pension pot even though no advice

was given.

LEWIS: So if they'd gone for advice, that 600 quid would have gone to an adviser. But because they didn't, it doesn't go to anybody? It stays with the firm?

SEGARS: It's going back to the provider, yeah.

LEWIS: Okay, well listening to that in Edinburgh is the Director General of the Association of British Insurers, Otto Thoresen. Otto Thoresen, 450,000 people a year buy an annuity, and most of them seem to be sold the wrong one. What's your industry going to do about it?

THORESEN: Well, Paul, thanks for giving me the opportunity to be on the programme today. I think the first thing I would say is that this is a very important decision for people, it's a critical decision for people, and I think it's important that all parts of the industry do all we can do make the system work well. I was interested to hear you talk about "sharp practice and murky pricing" in the report. Actually the sharp practice and murky pricing is the language of the press release, the report doesn't actually mention those words at all, but it does talk about areas where the system absolutely needs to improve and we would agree with that.

LEWIS: Yes, but we've been talking about this for years though, Otto, and you haven't improved it, have you? This is just one among many, many reports.

THORESEN: We haven't improved it enough, Paul, but we have improved it. Actually the numbers show that people buying annuities from providers other than their own have gone up and have gone up from around 35% a year ago to around 44% on the latest numbers, but we have to do more. And I think looking at the report across the board, I think there's some very interesting stuff in it. I think the message I took from it was that yes we have to work very hard on improving shopping around. I think we also need to look at how we can deliver advice to people and guidance in an

appropriate way. And I think the third thing that came through from the report to me was that actually the role of the employers and trustees in workplace schemes is critical too because at retirement people are leaving the workplace, there are many things changing in their life. This is going to be a big part of maintaining their quality of life in the future and I think it's important that all those people in the system are part of improving it.

LEWIS: Sure, you want employers to play a part, but it's your members who should be doing it, isn't it? You say less than half of the people move their pension. You should be saying to them you can stay with us, but if you do you'll probably do worse than if you went to the market. You don't say that to them, do you?

THORESEN: Well we absolutely say we have to do more and that's why we have a consultation going on at the moment, which actually this report will be considered as part of, which was started by the insurance industry really in response to work that they ...

LEWIS: *(over)* Yeah but ...

THORESEN: If you'd just let me finish, Paul. ... the DWP and the HMT are doing. They have a review group which are looking at this and have asked us ...

LEWIS: *(over)* Yes, but it's reviews and reviews and reviews. Joanne Segars ... Let Joanne Segars respond because we're not going to have forever for this. Joanne?

SEGARS: Well I mean, yes, I think it's good that the industry is looking at this and I think you know the code of practice the ABI is proposing will be a step in the right direction, but I really don't think it goes far enough. What we want to see is something which either compels people, forces people out into the open market to exercise that open market option; or where providers, insurers are required to provide a broking service, so that people are forced out, so they can get best value for money.

Because at the moment we talk about the open market option, we talk about shopping around, but for many people, particularly those with small pots, it simply isn't available or they simply aren't shown it clearly enough.

LEWIS: Because the average pension pot is round about £25,000, £30,000, isn't it Otto, and many of your members either don't want to deal with people with those small pots or they give them worse rates?

THORESEN: Well I think inevitably when you're talking about a smaller pot, the economics of the administration and delivery of the solution are going to mean that you're going to get less in the smaller pots than you will in a larger one.

LEWIS: Well it's not inevitable, is it?

THORESEN: Well it is to the extent that the administration in fixed costs have to be covered. But I think the availability of the comparison opportunity - whether that's through an adviser or through the Money Advice Service website which actually provides some of this already - getting this working better and making it ... I mean let me give you just one example.

LEWIS: Well you'll have to be brief because we're running out of time, Otto - immensely brief.

THORESEN: Okay, I will be very brief, I'll be very brief Paul.

LEWIS: Ten words.

THORESEN: The things we're trying to do are to make it far more critical for the individual to make a decision for themselves rather than just default into an option which might not be valuable to them.

LEWIS: Joanne, ten seconds.

SEGARS: But the industry has to really drive this. It has to be driven by the providers. And, yes, trustees will step up to the plate, absolutely, but the industry has to drive this.

LEWIS: Joanne Segars and Otto Thoresen, thanks very much, from the ABI.

Now Money Box has learned that the airline Virgin Atlantic is forcing new staff to pay for their own criminal record checks after referring them to a third party employment screening firm. Money Box has been contacted by one recent graduate who's been asked to pay £25 in order to work for the airline's call centre. Bob Howard's been looking into this.

HOWARD: Yes Paul. Each year Virgin Atlantic recruits hundreds of staff in the UK. I spoke to a listener who was recently interviewed for a job in its Swansea customer service centre. She's a graduate in her early twenties, and after being offered the position she was contacted by a firm called Procius which does pre-employment screening for the airline.

LEWIS: And Bob - pre-employment screening, just tell us what it is.

HOWARD: Well it's basically checking people's work and criminal records. These sorts of checks are being increasingly outsourced to agencies by big firms, but many potential employees like our listener don't know they exist and they also don't understand their charges. Our listener didn't want to be identified, so her email to Money Box has been read by one of the team.

GRADUATE'S EMAIL: I was asked to create an online profile with a reference checking company called Procius. Before the online profile could be completed, I was requested to pay £25 to cover the costs of the reference check. Is it becoming common

practice for companies to demand that employees pay for their own referencing checks?

HOWARD: Our listener said there was no mention of the fee when Virgin first sent her an email with a link to Procius. She felt obliged to pay up, so she could secure the job. And she also felt if Virgin Atlantic wanted to screen her, it was in a much better position to absorb the cost than she was.

GRADUATE'S EMAIL: I have been left feeling that I'm being taken advantage of by companies who are well aware of how difficult it is to find employment and have realised that they can charge ridiculous fees for even the simplest reference check.

HOWARD: The Trades Union Congress believes the number of firms requesting checks (either directly or through pre-employment screening firms) is growing. Helen Reid, the TUC's Senior Employment Rights Officer, also feels that firms should be paying, not newly employed staff.

REID: If employers are going to ask for a check, then they should be footing the bill for that. It's unreasonable to expect people particularly who've faced unemployment for a long period of time to pay £25 in order to be considered for a job.

HOWARD: Virgin Atlantic and Procius told us the £25 was for a criminal record check. Procius insisted that this is made clear when employees are asked to make the payment. It would not offer anybody for interview, but it admitted some employees refused to pay the charge, and without the check they won't be employed. Virgin Atlantic wouldn't offer anybody for interview, but did offer a statement.

VIRGIN ATLANTIC STATEMENT: In common with many other employers, we ask all new employees to pay a £25 fee for a criminal record check. Safety and security within the airline industry is of paramount importance and Virgin Atlantic has to be extremely thorough throughout the recruitment process.

HOWARD: But in fact requirements for other employees in this sector and who ends up paying vary widely. The Department of Transport confirmed to us that criminal record checks are only required for aviation staff who work airside, not in call centres like our listener. British Airways and Ryanair said their airside staff who require the check had to pay, while BMI said it paid for its staff to get their security clearance. And Service Air, the ground handling firm, said it asks staff to pay themselves, but then refunded them when they started work. And some BA staff are emailing us to say they are also refunded.

LEWIS: And Bob, lots of other listeners have been emailing their own experiences, haven't they, of paying for these checks?

HOWARD: Yes, we've had lots of emails from teachers and people working in the NHS who are employed by agencies. They're particularly unhappy that they have to have a separate CRB check for every agency they work for. Jonathan from Liverpool says he currently has 15. But one employer has a different perspective. Tim from Torquay told us many prospective employees accept a job, then don't even turn up for work. He thinks staff paying for their own CRB check demonstrates their commitment to getting the job.

LEWIS: Thanks Bob. And you can let us know through have your say on our website: bbc.co.uk/moneybox.

If you want to invest in a pension, an ISA, a unit trust, do you know how much it will cost you? Research by one wealth management firm SCM Private suggests that consumers are paying more than £18 billion of hidden charges every year. It wants fund managers to sign up to a new code, forcing them to be more open about the costs that are deducted from consumers' investments before they see any return. Gina Miller is Co-Founder of Wealth Manager SCM Private. Gina, at the moment fund managers do have to quote an annual management charge and a total expense ratio. What's missing?

MILLER: Well I would say that the debate is about hidden charges. But it's not about charges not being there. There are charges that need to be in reports and accounts. They're there. They're just in about thirty different places, buried in page 114.

LEWIS: So very hard to find?

MILLER: Very hard to find. So if you look at the Oxford English Dictionary, the definition of 'hidden' is out of sight and that's what we are saying. We're not saying that the charges aren't there. We're just saying that they're out of sight for the consumer to fully understand.

LEWIS: And you obviously want them clearer. With us also is Richard Saunders who's Chief Executive of the Investment Management Association which represents the industry here. Richard Saunders, hidden charges. It is hard to know, isn't it, what costs are being taken out?

SAUNDERS: I think that's a bit unfair actually, Paul. There is a single measure of charges. It's called 'ongoing charges'. It's recently replaced the total expense ratio which you mentioned a minute or so ago. The ongoing charges are the result of very careful, very detailed scrutiny and analysis by European regulators and they're actually a very good guide to what it costs to invest in a fund. If you look at the net return on a fund - you know which is what investors get - and you compare that with the market return, what you find is that the difference is actually very close to that ongoing charges number.

LEWIS: So you're trying to tell us that all the charges are there, whereas Gina's telling us they're not. You can't both be right. Gina, are they all there in this ongoing charges?

MILLER: Well I think if you look at what the European regulator said, actually in

September the Chair of ESMA actually said that it is not a debate around transparency. He said that you know you have got to look at the fact that there is a lack of transparency and there is a misalignment in information. So the information may be there, as I said earlier, but it is not easily identifiable by the consumer. And what we are saying is to make an informed decision somebody out there who doesn't have the same knowledge level as the industry does should be able to make those comparisons across all products in one simple number.

LEWIS: And it is true Richard Saunders, isn't it, that in the past the annual management charge, for example, excluded loads of things, and yet people tended to assume it didn't? The total expense ratio, which you mentioned, wasn't a total, wasn't an expense and wasn't a ratio. I mean it was just designed to confuse people. Are you saying these ongoing charges that you now say are being quoted, is that universal that they're being quoted?

SAUNDERS: Yes, it's a requirement for all European investment funds. But I think let's come back to this issue of what's in and what's out. What the ongoing charges don't include are the costs of trading, the underlying portfolio.

LEWIS: So they don't include everything?

SAUNDERS: Hang on, hang on, hang on. They don't include the costs of trading the underlying portfolio, and that is I think correct because the trading costs are very different in character from the costs of the fund. But ...

LEWIS: (*over*) But they still come out of the investor's pocket.

SAUNDERS: ... but Paul, let me finish, here I do have common ground with Gina because, as she rightly says, those trading costs are disclosed. They're in the report and accounts, which is a document I completely agree that most investors would never see. They probably don't even know it exists. And I think there's a good case

for making those much more prominently available to investors.

LEWIS: So you've got yet another charge, ongoing charges, which doesn't include everything. Why not?

SAUNDERS: I think the point I would make about this, Paul, is that the costs of trading the underlying portfolio cannot be looked at in isolation from the impact of the investment decisions which are taken. Now when you look at them together, when you look at those together, what you find is that actually the ongoing charges are a very, very good measure of what it costs you to be invested in a fund.

LEWIS: Gina?

MILLER: I was going to say but our research showed that over 50% ... We re-commissioned some research in December across a wide sample of the nation and over 50% said they didn't know what their investments cost; and 84% said they would like to know what the total costs of their investments were. I mean these are irrefutable findings and they align with findings from other organisations and associations.

LEWIS: And don't you think, Richard Saunders, that the danger is if people feel they don't know, they don't buy your products? And sales of investment funds to retail customers fell 40% last year. Is that partly because they're just confused about what they cost?

MILLER: No, I think there's other reasons for that. But I think of course people should know what their investments are costing. It's an absolutely critical piece of information. That is why the European rules have this number which is designed to pull it all together.

LEWIS: Richard Saunders of the IMA and Gina Miller of SCM, thanks very much.

Now more and more of us, about 14 million I think, are using the online payment process of PayPal - especially in conjunction with the auction site eBay, which of course owns PayPal. But some Money Box listeners have run into problems with customer service when something goes wrong - particularly when an eBay buyer collects the item in person. Reporter Mike Wendling is here with more.

WENDLING: Yes Paul, I've been talking to Bill Joiner. He lives in Essex. Now last October he sold an iPad on eBay for about £560. The buyer paid via PayPal and Bill was all set to post the item until he got a phone call.

JOINER: He phoned to say that he'd looked on the map and he was taking his family to Colchester Zoo. And he'd looked on the map and found that where we live in Little Clacton isn't two million miles off his route. Would it be okay if he came round and picked it up?

WENDLING: The transaction seemed to go smoothly, but several weeks later the buyer complained to eBay and said that he hadn't received the item. And of course Bill didn't have proof of postage, but he did smell a scam so he went straight to the police. He was still grappling with the companies and his eBay and PayPal accounts were frozen. But then he heard from the police as there was a development in the case.

JOINER: The officer phoned me up and said the chap came into the station, he's put his hands up, he's given us the money back. Would you be happy to fill in and sign what they call a resolution form to save it all going to court? Well as it happened, he gave the money back in cash, gave me a letter of apology, and I forwarded that onto eBay. I told them about the police incident number and the crime reference number. They wouldn't even phone the police or make any inquiries to see if I was telling the truth or not.

WENDLING: Now I've seen all the paperwork that Bill collected and the case is

pretty clear right down to that apology letter from the fraudster.

LETTER FROM FRAUDSTER: I am sorry for all the trouble that I've caused. It was a genuine mistake on my part and I'm sorry that it's caused you a lot of stress and problems with PayPal and eBay. Sorry if this has worsened your feelings towards eBay and PayPal. This was not intentional. I am glad that we've been able to sort this amicably with the police.

WENDLING: But it wasn't the scam artist that turned Bill Joiner against using PayPal and eBay. Rather it was the way he was treated by their customer service departments. Despite the evidence piling up in his favour, Bill was still unable to get any help. Instead he was pursued by debt collectors. But after all this and nearly 4 months later, finally there's some good news: after being contacted by Money Box, eBay gave Bill Joiner a refund to the amount of the iPad.

LEWIS: Well that's good news in a particularly clear-cut case, Mike. But not the only one we've heard. We did the story in September of the mattress which PayPal suggested to us should have been posted to the buyer to protect them. What else have we been getting in?

WENDLING: Yes in the past few months we've heard from a number of listeners. Some of them had stories very similar to Bill Joiner's and others were critical of eBay and PayPal customer services in general saying it's difficult to talk to a real person when there's a problem, or that accounts are frozen with little explanation of what the actual problem is.

LEWIS: Well thanks for that, Mike. And we put this to Rob Skinner who's Head of PR for PayPal. I started by asking him what went wrong in Bill Joiner's case.

SKINNER: I'd like to start off by apologising. It's quite clear that we handled this case badly and we're reviewing the way we handle this sort of case as a result. Now

ultimately what we do at PayPal and eBay is cover sellers for certain circumstances when things go wrong - in particular when they can show that they've posted goods to the buyer. Now in this particular case the goods were exchanged in person. However as a result of this experience, we're looking at how we handled this case; in particular where although sellers aren't actually covered, they've obviously got a lot of evidence as to what happened - particularly when for example in this case they've actually gone to the police.

LEWIS: Yes, I mean in this case he contacted the police, he reported the crime, he got an incident number, but you still went after him as the guilty party, froze his account and sent in debt collectors.

SKINNER: Well, as I say, I'd like to apologise to Mr Joiner for what happened here. Quite clearly that experience is a very poor experience in anyone's book and we certainly should be learning lessons so other people don't go through that kind of experience.

LEWIS: Well you say learning lessons, but we did speak to you about a similar sort of case in September - personal collection, no proof of delivery. And your firm always seems to assume the seller's at fault, not the buyer. Why do you do that?

SKINNER: We do have a responsibility to sellers and to buyers, and what we're doing is balancing the interests and indeed in a sense the stories of both. And it is hard because in many cases it's one person's word against the other. However, as I say, we can certainly learn lessons. And the other thing we'll be doing is to look at how we explain what sellers need to do to get protected in this kind of case.

LEWIS: So will you be specifically warning sellers on the websites about the dangers of allowing personal collection?

SKINNER: We've already got those warnings there, but I think we can ...

LEWIS: (*over*) Well perhaps not big enough because many people don't know about them.

SKINNER: We will be taking a closer look at that.

LEWIS: And why can't you extend the protection you have to personal collection? Can't you have some system where they get a receipt from the buyer?

SKINNER: We recognise that handing over goods in person is an attractive option for many sellers and buyers. The difficulty is finding proof that the goods have actually been handed over. It may take some time, but it's something we take seriously and we will certainly look into it.

LEWIS: There does seem to be another complaint - that it's very hard to get in touch with eBay or PayPal, to actually get into talking to someone who does more than simply say well that's our procedure, tough.

SKINNER: I totally accept that if you're the person whose transaction goes wrong, that's very little reassurance. We are investing very heavily in customer service and, as I say, we will continue to do that.

LEWIS: Rob Skinner from PayPal. And remember if you do sell something on eBay, you can specify that you will only deliver by post (which protects you) and not allow collection in person - which, as we've been hearing, doesn't. I must say emails still coming in from people about those employment checks that they're being asked to pay for. Heather from Cheshire says she works as an agency theatre nurse and she has to have a CRB check for every agency she's registered with, and they all charge £44 for each one. She has to pay this every year. Katrina from Sandhurst says her 14 year old daughter plans to coach gymnastics at her club and she's been told at the age of 14 to pay £60 to pay for a check. And they are still coming in. Thanks for those. Bbc.co.uk/moneybox for more if you want. More information on our website too at

that address, listen again of course and send us your ideas - as many of you do. And you can have your say on those checks you have to pay for yourself. On Wednesday Vincent Duggleby is here with Money Box Live. This week he's taking your questions on energy and energy saving. I'm back with Money Box next weekend. Today the reporters Bob Howard and Mike Wendling, the producer Lesley McAlpine, and I'm Paul Lewis.