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MONEY BOX

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TRANSMISSION: 7th JANUARY 2012 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, the insurer who gives you extra cover you didn't ask for and then charges you for it after 3 months. The problems with the new European law on Faster Payments: just what is the quickest way now to pay your credit card bill? The 'absolute return' funds that give you absolutely nothing - or less. And 14,000 Bank of Ireland mortgage customers are moved to a Nationwide subsidiary with a mortgage rate that could end up 65% higher.

But first, a leading car insurer has been adding extra insurance to customers' policies even when they've indicated they don't want it. Initially the product is free, but when the policy's renewed, the cost is added onto the premium unless the customer then asks specifically for it to be removed. Bob Howard's been looking at one listener's experience.

HOWARD: Paul, Money Box was contacted by David Gregory from Berkshire. He went online to take out car insurance from the firm E-Sure in April last year. As he was buying the policy, he was offered the chance to buy an add-on product called motoring legal protection, which he chose not to take up. Then last month, he received this letter from the firm.

ESURE LETTER: We've noticed that when you took out your car insurance with us, you chose not to add motoring legal protection to your policy. We'd like to offer you this extra benefit free of charge until your next renewal date. You don't need to do anything; we've already added it to your cover. If you'd like to remove it come time of renewal, just let us know.

HOWARD: Although the idea of getting a free service for 3 months was appealing, David had concerns about how this product was being marketed.

DAVID: What they're saying is that they could write to you about anything and add it to your policy for a limited time for free, but unless you remember on a certain date to ring up or to email them and say I don't want it anymore, then it'll be added next year as a cost. And I just wonder how many people with busy lives are getting these little added extra costs put on their policies and not remembering to take them off and then racking up bills over a number of years.

HOWARD: David was also concerned because the letter didn't say how much this protection would cost him if he continued with it come April. The Financial Services Authority, along with the Office of Fair Trading, regulates the selling of insurance products. The FSA told me if a customer is offered add-ons to an insurance contract, but does not choose to take them, it would expect the firm to respect this decision. Ingrid Gubbay is a consumer specialist lawyer for the firm Hausfeld and Company. She says firms must make it clear to customers the price of any service they sign up to even if there is a free trial period.

GUBBAY: It still must be made clear if there's a cost eventually attached to a product that the consumer must opt in to buy that product, and it must be made clear when they should do that and what the price of the product will be. If that is not on any notice to the consumer, whether it's by phone or by email or by letter or any other way, then there is the risk that that could be a misleading omission that would run the risk of falling foul of the unfair trading regulations.

LEWIS: Ingrid Gubbay. Well I spoke to Adrian Webb from E-Sure and asked him why the firm was adding services to policies which customers had not requested.

WEBB: An awful lot of people unselect motor legal protection when they're buying online and there's actually a huge discrepancy between the number of people who buy it when they have it explained to them on the phone and those who just see one of those sort of option boxes when they're buying on the internet and just un-tick it thinking you know I'll never

need that. What we found last year was there were nearly 10,000 customers who un-ticked the motor legal protection box.

LEWIS: Because they didn't want it?

WEBB: Well they didn't think they needed it. The truth is there wouldn't be a discrepancy between phone and online if people really understood what it was they were getting ...

LEWIS: (*over*) And how much does it cost?

WEBB: It costs £25.

LEWIS: A year?

WEBB: A year.

LEWIS: Right. But why don't you say that in the letter? You know we talked to a lawyer who said leaving out the price is a misleading omission and she believes it's contrary to the laws of unfair trading. Do you accept that?

WEBB: Well it's very difficult to put a price on something when during 3 months it is free. There isn't a charge for it during that period at all. That is genuinely 3 months.

LEWIS: So you don't think that letter contravenes the law on fair trading?

WEBB: I don't believe so, but if she has evidence to the contrary of course we'll look at it.

LEWIS: But Adrian, isn't the truth you give people up to 50,000 pounds worth of legal costs; it costs them £25 a year, so clearly very, very few people use it; and you're just hoping they won't notice this extra 25 quid and you'll be making a lot of money out of it?

WEBB: No, absolutely not, absolutely not. And I would say to you now one of the changes that we're going to be making is that if even after renewal somebody decides that it's on there and they don't want it, we will take it off and we'll refund it.

LEWIS: And at renewal, will you be sending a separate letter or will it just be bundled in as part of the sort of renewal document?

WEBB: We speak to most people about this. There is a small number that we don't and those are the annual direct debit payers. Mr Gregory is one, and that's why we completely take your point as far as he is concerned. But the vast majority of people, there is a clear conversation when what they've got is explained to them, they're asked whether they want to continue to have that or not. So we are going to take this away and we are going to make some changes in there to get round that issue where we're not speaking to somebody before.

LEWIS: So you are going to make changes?

WEBB: We are.

LEWIS: And so you accept the general point then that commercial companies should not give people something free and then start charging them for it when they haven't specifically asked for it. Because any company could do that. Your credit card company could write to you and suddenly say they were giving you insurance free and then they add it onto your bill in a year's time. I'm sure you wouldn't be very happy about that?

WEBB: I think there is a difference between an annually renewed insurance contract where in the vast majority of cases in this country people have the obligation to look at their insurance contract. But we take your point, absolutely. We're going to take it away. We're going to look at his case. We're going to make changes.

LEWIS: Adrian Webb of E-Sure. And you can let us know your experience of being signed up for services you didn't ask for through Have Your Say on our website: bbc.co.uk/moneybox.

Electronic payments should be quicker, or at least more consistent, from this week. Online and telephone banking has been getting better for some time. Faster payments, as they're called, normally arrive within a couple of hours, but there have still been big gaps, not least standing orders. Now a European law has come into force which should close some of the loopholes. Money Box's Mike Wendling has been looking into it. Mike?

WENDLING: That's right, on 1st January a new European directive came into force requiring electronic payments to reach the recipient's account by the next business day. Now there's no next day system in Britain, so the good news is payments should be even faster than that - within two hours under Faster Payments. The new rule applies to what are called payment accounts. That includes current accounts, but not savings accounts with notice periods or ISAs.

LEWIS: So that's one catch, Mike, and I'm assuming there may be others?

WENDLING: Yes, there are several. The main one being that even through Faster Payments, Faster Payments has a £100,000 limit, but many banks have imposed lower limits. Now we did a survey and for online payments, Barclays, RBS, HSBC, they each have a £10,000 limit. Santander's is higher at £50,000. But other banks have lower limits. Clydesdale Bank, for instance, has a limit of £5,000 for personal customers.

LEWIS: And what happens if you want to transfer money above those limits? I mean £5,000 or £10,000 is a lot, but could be a tax bill, a car maybe, even a big credit card bill.

WENDLING: Well in that case, you can transfer money via the CHAP system, but that may incur a fee. It depends on the bank and we asked around again. It could be up to £30. One alternative is to split a big payment into several smaller ones. Now some of the banks said that they will let you do that. Most will make you spread those smaller payments out over a number of days. The Payments Council website has a sort code checker and a list of limits which will give you some basic information about how your bank handles electronic payments and you can find the link on the Money Box website.

LEWIS: And this system, Mike, doesn't just apply to the UK. It's Europe wide.

WENDLING: Yes, that's right. So, for instance, if you want to send money to your mum in Spain or indeed your mum or anyone else anywhere in the European economic area, it should be there by the next working day. Now I should point out that here in the UK the Faster Payments system applies to standing orders and one off payments, but only to those done electronically.

LEWIS: So not cheques?

WENDLING: No, not cheques. They're as slow as ever. They'll take a few days.

LEWIS: Thanks Mike. Well one supposed advantage of the new system is that you can pay your credit card bill on the day it's due and know the money will arrive on time, thus avoiding the £12 fine for late payment. But we've had listeners questioning whether this was actually working. Gemma Smith is from the Payments Council which runs the system in the UK.

SMITH: Faster Payments happens on the same day, so if you pay your credit card bill before the close of business, then you can be confident that it's arrived at the credit card company. However, you may not find that the money has been received by the credit card company online if you check your statement up to a couple of days later and that's just basically because the Faster Payments system is faster than the system at the credit card end.

LEWIS: Does that mean you can still be fined because their system has been slow?

SMITH: No because the legislation is very clear that if you make a faster payment, it's a same day service, and providing you've made the payment within business hours then the credit card company will have it and you should not be charged.

LEWIS: One of the problems we've talked about in the past is again credit cards; that if you go into your bank with cash and pay your credit card bill on the day it's due sometimes even that has taken three days before it's cleared. Can that still happens?

SMITH: No, what will happen now is that if you pay by cash in your own bank, then that must be paid immediately. However if you were to go into another bank and pay that money, then it could be applied the next working day.

LEWIS: And the other point that people have been asking me since this came in at the start of the month is what about ringing your credit card company and then you give them a debit card number, for example. Will that also be instant or faster payment?

SMITH: Well this is a bit of a strange one actually because when you make a faster payment, it leaves your bank and gets to the credit card company on the same day. However, if you make a debit card transaction with the credit card company, the credit card company strangely has to use a bank to actually process that transaction. So there's an additional leg in the transaction and, therefore, it can take three days.

LEWIS: So, for example, if you rang up on a Tuesday, you may find that your credit card bill isn't paid till Thursday?

SMITH: Yes. It's unlikely, but I mean this is where it goes back to the point that if you are paying a time critical payment, it's really important that you check your bill to see the timescales that are allowed.

LEWIS: But it's quicker in fact to ring your own bank and make a phone banking payment than it is to ring the credit card company or indeed the tax office and make a debit card payment?

SMITH: It is because Faster Payments is just so fast.

LEWIS: Now at least one organisation we know isn't complying: PayPal has confirmed to Money Box it's not making payments to the European standard. What can people do whose payments are late? What's the penalty on PayPal?

SMITH: Whether it's PayPal or anybody else, the most important thing if you don't get your

payment on time would be to complain to the institution, the business directly first off. If they don't help you, then of course you've got the Ombudsman there to complain to.

LEWIS: Well of course that's going to take considerable time, but you could get compensation for any penalties you incurred as a result.

SMITH: Yeah, you may well do.

LEWIS: Gemma Smith. Well no-one from PayPal would be interviewed, but it admitted it doesn't comply with the EU law in the UK for payments out of PayPal into your bank account. In a statement, the firm said it expects to be able to offer its customers Faster Payments by the middle of 2012.

Now if you want to invest your money something called an 'absolute return fund' might sound attractive. They aim to give you a positive return even when the stock market is volatile or falling, as indeed it has been this year. But for a lot of people who invested in these funds in 2011, the results didn't live up to the name. Ben Carter's been looking at this. Ben, what exactly is an absolute return fund first?

CARTER: Well, Paul, according to the people that market them, the chief selling point of these funds is their apparent ability to cancel out the risk of the market. They act in a similar way to hedge funds, so the funds aren't simply reliant on rising share prices. They can also short the market, which means they can sell shares they don't own in the hope that they can make money even when the market is falling.

LEWIS: Yes and of course that can be a risky business in itself. How have they been performing though?

CARTER: Well I've been speaking to Morning Star and they're a company that specialise in analysing fund data, and they told me that only 25 out of the 65 absolute return funds provided a positive return in 2011 and some funds lost more than 10%. Only 10 funds returned more than 3%, which is a rate you could get from a good savings account. However

some funds did perform very well: Cazenove and Old Mutual produced returns of more than 10% last year.

LEWIS: Thanks Ben. Now I asked Merryn Somerset Webb, Editor in Chief of Money Week, her thoughts on absolute return funds.

SOMERSET WEBB: I would say that one of the problems with a lot of hedge funds and with a lot of absolute return funds (because they're sort of the same thing) is that they don't do what they say they're going to do. If you track their performance against that of say the FTSE 100 or the FTSE 350 or the FTSE All Share (whatever you want to choose) as a whole, you'll find that their performance tracked the FTSE far, far, far too closely. What is supposed to be happening here is you're supposed to be seeing a group of funds that act independently of the market, but in fact look at the graphs of their performance and you see that they're working with the market and that I think is a problem.

LEWIS: What fees are charged for this? Are they more expensive than funds that don't imply they'll have an absolute return under any conditions?

SOMERSET WEBB: Generally they are, yes. Management fees are generally very high. And also, like all performance fees, this is a one way business: they get the extra fee when they do well; when they do badly, you do not get it back.

LEWIS: Yes, so they don't give you a rebate if they fail.

SOMERSET WEBB: No rebates.

LEWIS: Which was probably just as well in the last year because the average return on the ones that are called absolute return funds was just over minus 1%. Now in their defence, that is rather better than if you'd simply put your money into the shares in the FTSE 100 index. That would have gone down nearly 6%, wouldn't it?

SOMERSET WEBB: Absolutely. There is a case for defending some of these funds in they

haven't done as badly as the market as a whole, and that's the case over 5 years and over 10 years. And there are a couple of absolute return funds that are really, really excellent, that have very, very good records. So it is possible.

LEWIS: I mean do you want to say which ones they are, which ones have done well in that long-term?

SOMERSET WEBB: CF Miton Special Situations has been very good. I think the Liontrust Fund has been very good. Standard Life have an excellent fund: GARZ, the Global Absolute Return Fund, which has done very well indeed. They're out there. It's simply a matter of choosing the right ones, which of course is the almost impossible thing because while these funds that I mention have done well in the past, I can't possibly tell you that they will do well over the next 5 years. That would be to predict the unpredictable.

LEWIS: And there are of course funds that have done very badly. Certainly over the last year, there's a couple. There's one, GLG EM Diversified lost 16% of your money over the last year. I mean that's a record that any fund should be ashamed of, never mind one that promises an absolute return, isn't it?

SOMERSET WEBB: Most certainly it is. Yes, anyone should be ashamed of losing that amount of investors' money when they've made a commitment to try not to. But if you're working in markets like this, it doesn't take very many big mistakes to lose an awful lot of money.

LEWIS: There's about 10 or 11 of them, I suppose, that have done better than if you simply put your money in one of the top paying deposit accounts. They've made more than sort of 3 and a bit per cent. Do you think there's a case for these funds at all, or do you think you'd be better off in cash, or indeed - as you've advised before on this programme - in gold?

SOMERSET WEBB: Well what I will say is that when the absolute return fund idea first arrived, I was absolutely thrilled because we'd spent years and years and years arguing about this business of everyone measuring themselves relative to other people - I have

outperformed because I did better than he did even though I've lost 20% of your money. So the idea of people starting to look at returns for investors in an absolute way - i.e. I'm not measuring myself against an index, I'm measuring myself against cash against what you would have got if you'd done nothing - that seemed like an excellent idea. And I still think it is, I still think it's the way that funds should measure themselves. The problem with this is simply that too many people are in it now and too many people who don't have the correct skills are in it now, and they're charging too much for it.

LEWIS: So you look for low fees rather than past performance?

SOMERSET WEBB: The only absolute when you buy a fund is how much it's going to cost you. That's the only thing you know for sure. What's going to happen to it in terms of its performance is something you have absolutely no idea about.

LEWIS: Merryn Somerset Webb of Money Week. Well I mentioned in the interview the investment group GLG, which in fact was responsible for managing two of the five worst performing absolute return funds last year. We asked GLG to come on Money Box, but they said no. Ben's here though. Ben's been getting some information of them and they did send you a statement, Ben.

CARTER: Yes and GLG say that 2011 was a difficult year for investing with markets "highly correlated, volatile and dominated by political events." They say they are "disappointed" with the recent performance of the two funds, but have "every faith in the robustness of their investment strategies."

LEWIS: Thanks Ben. And Ben, while you're here, a bit of good news in cuts in energy prices.

CARTER: Yes Ovo has announced a 5% drop in its dual fuel energy tariff that takes effect immediately. According to figures from price comparison site Confused.com, it means they now have the second cheapest dual tariff on the market with an average bill of £1,061 per year. And their figures also reveal that First Utility's iSave 9 currently provide the cheapest

dual fuel tariff for customers that pay by direct debit. And National Savings and Investments says it has resolved the problems that affected its website on Thursday and Friday and you can now check your premium bonds in the January draw.

LEWIS: Thanks, Ben. I know a lot of people were anxious about that, but it does seem to be working now.

Now over 14,000 people whose mortgages have been transferred from Bank of Ireland to a firm that's a subsidiary of Nationwide are facing an anxious wait to see if - and when - their mortgage costs will rocket. Some could face a rise in their monthly repayments of maybe as high as 65%. Nationwide won't say when the change will take place and the letter it's sent to customers has left them with conflicting emotions. First came the bad news.

NATIONWIDE ANNOUNCEMENT: References to the Bank of Ireland's standard variable rate (currently 2.99%) will be replaced by the TMW residential managed rate (currently 4.79%) (*Boos*)

LEWIS: But then they were given some hope.

NATIONWIDE ANNOUNCEMENT: However, we should stress that no decision has yet been made around future changes. (*cheers*)

LEWIS: But Money Box listener David who lives in Wigan wasn't joining in that cheer. He fears his mortgage payments will rise sharply, albeit at some unknown time in the future.

DAVID: I worked it out at £53 a month, but I know there are families in London getting it with 180 quid a month. If the Government puts interest rates up, we just have to grin and bear it; but when you've been passed from one package to another. And the mortgages that were taken from Bank of Ireland were all those that weren't in arrears and people who had good payment history. They've been cherry picked and then penalised.

LEWIS: Well that's one listener's experience. Live now to talk to Ray Boulger who's Senior

Technical Manager from the mortgage brokers John Charcol. Ray, why were these mortgages moved and why to the Mortgage Works, which is part of Nationwide?

BOULGER: Well Bank of Ireland of course is one of the banks that's got difficulties and had to be bailed out and they will be under pressure to reduce the size of their balance sheet, and so that's why they will have been attracted to sell off these mortgages. What I find a little strange is that Bank of Ireland has kept its standard variable rate so low. At 2.99 it's one of the lowest in the market and an obvious way for it to have improved its own profitability would have been to increase that rate because it's not linked to any bank rate.

LEWIS: It didn't do that; it just sold them and I think some people are wondering why to this subsidiary of Nationwide, the Mortgage Works, when Nationwide has a 3.99% rate whereas the Mortgage Works has 4.79%.

BOULGER: Yeah, I mean absolutely. The answer Nationwide give to that is that the Mortgage Works has more flexible IT systems, and that is absolutely true. However, I can't believe that's an insurmountable problem, and one of the things Nationwide have now said is that they will be offering borrowers who are affected by this the opportunity - although they don't give a date - to switch to a Nationwide mortgage. So that will give people more choices. If you look at the fixed rates for 5 years offered by Nationwide, the rates are lower for any loan to value up to 85% than the Mortgage Works' standard variable rate, so there must be a strong incentive for people to switch to Nationwide as and when they have an opportunity to do that.

LEWIS: Yes and the letter's been criticised as not being very clear, though Nationwide says that you know they can't tell people yet, but they will change it but they're not quite sure when.

BOULGER: I can't see any reason why the letter couldn't have been clearer. I mean just one little thing, for example. It says they guarantee as a concession (so-called) to keep the rate at 2.99 until March. Well bearing in mind this letter only went out in December, whether that's March 1st - which I think it is - or March 31st actually is nearly 50% difference in the time

frame, so I think there's certainly things that could have been clearer in that letter.

LEWIS: And Nationwide of course says they think it is clear. But while you're here, Ray, house prices. Here's how one popular newspaper informed its readers during 2011.

DAILY EXPRESS HOUSE PRICE 2011 MONTAGE: House prices up £67 a day (*segues to*) House prices rise £100 a week (*segues to*) Shock rise in house prices (*segues to*) House prices set to surge. (*segues to*) House prices to soar by 21% (*segues to*) House prices surge by 68%. (*segues to*) House prices surge again!

LEWIS: Well that montage from Daily Express front page headlines. And the results are in and Halifax this week said in fact house prices have fallen 1.3% - though of course different indices say different things and it's very different in different parts of the UK. And, Ray briefly, looking forward rather than back, what are house prices going to do in 2012 in your view?

BOULGER: Well I think we're going to see a small fall. The major factor this year, in my view, is going to be the Eurozone banking crisis. We've seen the cost of funds for banks shoot up over the last few months. They're having to pay a lot more for new borrowing and that's resulted already in some quite sharp increases in the rates offered for new tracker mortgages and some short-term fixes, and I think we'll get to the stage when the major lenders cut back on their mortgage lending. Although many of the smaller and medium sized lenders tell us they plan to increase their lending, overall I think we'll see less mortgage availability. Combine that with a worsening economic situation, more unemployment, and my view is we'll see house prices fall around 4% this year, but (as of course last year) there will be big regional variations.

LEWIS: Ray Bougler from John Charcol, thanks. And thanks to Bibliophylax for that Express research. But that's it for today, for the first Money Box of 2012. More information on our website, bbc.co.uk/moneybox, where you can sign up to newsletters, sign up to the podcast, listen again, read a transcript, and have your say on insurance deals that are automatically added to your policy. I'm back on Wednesday with Money Box Live, this week taking questions on wills and inheritance tax. Back of course with Money Box next weekend. Today reporters Ben Carter and Mike Wendling, producer Bob Howard, and I'm Paul Lewis.