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MONEY BOX

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LEWIS: Hello. In today's programme, some smaller car hire firms that you might find on the internet take big deposits when you collect your vehicle. What if they don't pay them back promptly? HSBC is fined a record £10.5 million for selling the wrong investments to nearly 2,500 elderly customers. How can you protect yourself from such mis-selling? As 3.5 million people are reported to be considering taking out a payday loan, the Government says it will investigate capping the fees they can charge. And can new investment manager Vinculum link you to high returns at low cost?

But first, if you hire a car you'll usually be asked for a deposit, but what happens if you return the vehicle as promised and no money is refunded? Money Box has been contacted by two listeners in this position with hire cars from the same firm. One has had to wait 6 months to get £900 back. Bob Howard's been looking into this.

HOWARD: Paul, in the summer Karishma and her family were looking online to find a cheap car hire quote. They found one on a website, Car-Hire-UK.com, a firm based in St. Leonards-on-Sea in East Sussex.

KARISHMA: We hired a car from them for a week in June. They took from us a deposit of £900, which was double the amount that we actually paid for the rental. And although we returned the car back in the same shape and refilled the fuel, they haven't returned £900 back to us and today is December.

HOWARD: Karishma says she's been in constant contact with Car-Hire-UK.com, yet none of the firm's promises of payment materialised.

KARISHMA: At those times when they do pick up the phone, they say, "Yes, it's in the final stages of being processed. There was no problem with the car when you returned it." They've even twice given us transmission numbers trying to show that they have actually deposited the money back into our account and both of these were false.

HOWARD: And Tracey also contacted Money Box after she had a similar experience with Car-Hire-UK.com in October. She said she had no idea a big deposit was required until the car arrived.

TRACEY: The car was dropped off to my partner and, unbeknownst to me or him when we made the booking online, he was asked for a £600 excess payment in case anything happened to the car and also an £80 fuel surcharge just in case we didn't return the car with a full tank of petrol.

HOWARD: But, like Karishma, Tracey said she ended up making many phone calls to request the return of the deposit without success. And Karishma and Tracey are not alone: Money Box has seen three consumer forums with many other similar complaints from people across the world saying that their deposits also haven't been repaid, and customers have also described how when they've spoken to Trading Standards they were told they had been receiving complaints about the firm for 2 years. When we spoke to Bromley Trading Standards, they confirmed they'd received a number of complaints about the company which they were investigating. Money Box has raised Karishma's and Tracey's cases with the firm. Tracey said just a couple of days later her deposit was returned.

LEWIS: Thanks, Bob. But Karishma was still waiting for her refund when I spoke about these cases yesterday to Maurice Goodwin, a Director of Car-Hire-UK.com.

GOODWIN: One of them was in fact an administration error. They booked the car in one name and then paid with their credit card in a different name.

LEWIS: But it did take 5 to 6 weeks to get the money back.

GOODWIN: Yes it did.

LEWIS: What about the other one? That was a bigger one, wasn't it - £900?

GOODWIN: Yes that's correct, yes. What happened on that one was a similar thing in the sense of the customer actually booked the vehicle in their name and then of course paid on a credit card in another name.

LEWIS: So that's the same problem?

GOODWIN: Well not completely the same problem, but I mean that's been refunded now.

LEWIS: Well she told us today it hadn't, but anyway I'll take your word for that. Why do you take a deposit? Nowadays you can ring-fence it, can't you? Better known car hire companies than yours do just that. They simply tell the credit card company to ring-fence x hundred pounds, so the person can't spend it, but you don't take the money.

GOODWIN: Well I don't see any issue with the deposits.

LEWIS: Well the issue is that you have the money in your bank account and they don't have it in theirs. I mean you know cynics might say this is just a way of increasing your cash flow.

GOODWIN: Yes, I take your point.

LEWIS: You take that point. And certainly if you look at the consumer forums, there are endless complaints about your company about exactly this issue.

GOODWIN: Yes, I've seen the website and of course it causes us heartache and concern.

LEWIS: There's a lot of them - a lot of complaints from all over the world, aren't there?

GOODWIN: But a lot of them are repeats if you read between the lines because we know the true situation.

LEWIS: Can you tell me how many deposits are never returned to customers?

GOODWIN: It's no good me guessing, but it's a small percentage that don't get their full deposit back.

LEWIS: Why don't you put your address on the website, so they could write a letter to you personally to get these things sorted out?

GOODWIN: Well I haven't got a problem with that. We can do that if you wish.

LEWIS: Right. But there isn't one there. Why haven't you done it already?

GOODWIN: Well I mean these websites are designed for us. You know it's very easy, after all, to be critical about different bits and pieces.

LEWIS: So have you got any message for all the people who have been complaining about getting deposits back?

GOODWIN: Yes, I have. If they've got any problems, they've got me as a point of contact and I would willingly speak to anybody that feels they've got any grievance

about their deposit.

LEWIS: Well since I did that interview with Mr Goodwin, he has phoned Karishma to apologise and she has received her £900 refund. The firm does now provide an address on its website on the 'about us' page, and says it's going to give clearer notification of the deposit required. Rochelle Turner is Head of Research at Which? Travel. I asked her what you should do before booking a hire car online.

TURNER: These days we all have to be careful about buying things online. We see great deals and we don't know necessarily how long the company's been around or anything perhaps about that company. And by law in the UK all companies must have an address on their website - and that's for European companies too, and an address of where they're located - but also contact details, whether that be phone or email, so that you can get in touch with them. You can also go to customer forums and type into one of the big search engines just the company's name that you're interested in and find out a little bit more about what other people's experiences have been with that company.

LEWIS: Does that mean it's better really to stick with the big firms, the ones that we've heard of in car rental, rather than go for what might be a cheaper deal with someone you've never heard of?

TURNER: Well I don't think that's necessarily the case and we've done some research at Which? recently that shows that the customer scores are actually much higher among independent car hire firms than some of the big names.

LEWIS: One of the problems that our listeners had with the company we've been talking about today is that it actually took a deposit for the car on the car's delivery or when you picked it up. Rather than just sort of earmarking the money, it actually took the money out of the credit card or the debit card account. Is that acceptable?

TURNER: We don't understand why this is necessary and we recognise that it does

happen and the companies will say that they need this in order to make sure that the money is guaranteed and that the car hire can be procured. And I think if they are going to do this, it needs to be absolutely crystal clear so that consumers are left in no shadow of a doubt that this money will be taken from their account at the point of purchase.

LEWIS: And if you don't get the money back, can you use the Section 75 refunds on a credit card or chargeback on a debit card?

TURNER: Yes you can because it is a breach of contract, just like any other breach, and that's what Section 75 protects you for. And also chargeback, which is also luckily now available on Mastercard as well.

LEWIS: Rochelle Turner from Which? Travel. And you can have your say on car hire deposits on our website: bbc.co.uk/moneybox. Some of you already are.

HSBC was fined a record amount this week for systematically mis-selling investment products to nearly 2,500 people with an average age of 83. One woman in her 90s was sold one of the 5 year investment bonds when her life expectancy was just over 3 years. As well as the fine of £10.5 million, the bank will have to pay compensation, which it estimates at nearly £30 million. One independent assessment of its investment records found that 87% of these were mis-sold. Well the fine was levied by the Financial Services Authority. Its Acting Director of Enforcement, Tracey McDermott, explained to me her concerns.

McDERMOTT: The key issue with the investment bonds was that they're obviously products which are designed to be held for a minimum period of 5 years, and the sorts of customers they were being sold to - elderly customers, often with a relatively short life expectancy who needed these for care home fees - these were not the right sorts of products because the way in which the products are charged, the way in which the investment works means that if you don't hold them for the 5 years, then you do suffer significant losses if you make withdrawals in that period. And clearly if you

need to take money out to pay for your care home fees during the period, you will be suffering losses, so they were unsuitable for customers primarily for that reason.

LEWIS: During the time NHFA was owned by the bank, was it subject to an FSA inspection?

McDERMOTT: NHFA itself wouldn't have been subject to a separate FSA inspection. Obviously the FSA has, makes a number of visits and has a number of inspections and so on of HSBC, but clearly an organisation the size and scale of HSBC, we don't visit every part of it on a regular basis. We rely very heavily on the firms through the systems and controls they're required to have.

LEWIS: The fine - £10.5 million - I'm sure it sounds a lot to you and me, but it's just small change to HSBC, isn't it? It's not a deterrent at all.

McDERMOTT: I would disagree with that. It is the most significant retail penalty we've imposed so far, the highest fine for retail failings. But obviously a large part of the cost to HSBC here is not just the penalty. It's the very, very significant reputational damage that they suffer and it's the very significant compensation that they will be paying out to people, which is in excess of 30 million.

LEWIS: Why don't you fine directors who are responsible personally?

McDERMOTT: We do take action against individuals in appropriate cases.

LEWIS: But never in the case of a bank.

McDERMOTT: We've made it very, very clear that we expect senior management in firms to take responsibility. However, cases against senior management in large organisations are complex, they take time, and it's not straightforward to establish liability.

LEWIS: So you're saying that because the banks have got lots of lawyers who would challenge it, you don't do it with them but you do it with small IFAs because they're not in a position to challenge you?

McDERMOTT: No, absolutely not. What I'm saying is that actually the situation is a much more complex situation when you're in a large institution with several layers of management. We've made it very clear that we are focused on senior management responsibility and that we will take action in appropriate cases.

LEWIS: Tracey McDermott of the FSA. Well live now to talk to Gill Cardy who's Managing Director of IFA Centre and a pensions and care funding specialist. Gill Cardy, do you share the concern about the way these investments were sold?

CARDY: Yes, I mean clearly there's some issues around the question of the actual advice given. There were some issues about the actual administration suitability letters and some of the information that was given to clients. But fundamentally the problems with the advice related to the clients' attitude to risk not being discussed properly; the actual investments they were in being possibly too high risk with over-optimistic returns and not enough consideration for things like tax issues, leaving sufficient money in cash; and other things that might have made life easier - for example putting these policies ... they can be written on a joint life basis or put into trust, which can also work for people who are near the end of their lives.

LEWIS: I suppose one reason they were sold is because they paid up to 8% commission. So with an average of £115,000 invested, that's more than £9,000 just for mis-selling one investment.

CARDY: Well these products are available with these high levels of commission, but there's no requirement on an adviser to actually take that amount of commission. And many independent financial advisers now who are required to offer a fee option to their clients frequently, if they are going to take commission, take comparable levels to other sorts of investments so that there isn't that same sort of bias.

LEWIS: Or always pay a fee, I suppose. Because I mean I worked out the total commission on all these sales was £23 million. That's twice as much, more than twice as much as the fine.

CARDY: Well yes, the maths does lead to that figure, yes.

LEWIS: It certainly does. Isn't there another problem with investment bonds - that they're actually sold not for the investment, but because money in an investment bond is technically life insurance? So it's hidden from the local authority means test, so it wasn't in fact to help pay care home fees; it was to avoid paying them and to get the local authority to pay.

CARDY: Absolutely. One reason why you might make this investment, especially in advance of needing care, is that investments in this type of product are disregarded for the capital means test. Now anybody who's got capital in excess of £23,000 in round numbers will have their capital assessed for whether they have to pay for their own care. These policies are disregarded for that and that can be a very important part of the planning.

LEWIS: Yes, but, as I understand it, that is never written in the letter of recommendation because that would invalidate the cloak around it.

CARDY: Absolutely. It needs to be done in advance and ...

LEWIS: *(over)* And secretly.

CARDY: *(over)* Well and you cannot refer to it because otherwise that would be evidence that you were seeking to deprive local authority of the capital for paying for care.

LEWIS: Gill Cardy, thanks very much. And on Wednesday 21st December our phone-in Money Box Live will look at care funding. That's a week on Wednesday.

More than 3 million adults are thinking of taking out a payday loan in the next 6 months. That was the headline this week on research from the insolvency practice 3R. Payday loans offer the short-term high interest credit that banks are reluctant to provide, but at a price. Not only are interest rates enormous, thousands of per cent APR, but some customers get trapped in a downward spiral taking out one loan, then paying it off with a second and so on. That can turn a small debt of a few hundred pounds into an unmanageable one of many thousands. Now the firms themselves say that the fees for lending money - £25 to £35 per £100 borrowed - are reasonable and they provide a useful service. The Government though has commissioned research into the cost of these loans. Well I'll be talking to Consumer Affairs Minister Ed Davey about them in a minute, but first last week's story on Money Box about the very high cost of unauthorised overdrafts has brought in a huge response and Ben Carter's been looking at the emails.

CARTER: That's right, Paul. We received more than 500 emails from listeners and the vast majority were complaining about what they felt were excessive charges, but others argued that borrowing without the bank's consent was no better than stealing. And last week we mentioned listener Mark Defurne's case. His bank, NatWest, charged him £776 for exceeding his limit by £6.99, and after we got involved NatWest agreed to refund the charges as a gesture of goodwill.

LEWIS: If only they'd do that with everybody. Thanks very much, Ben. Ed Davey, as I said, is the Consumer Affairs Minister. I asked him first about those rollover loans where one payday loan is paid off by taking out another.

DAVEY: Well we're extremely worried about the impact of very high levels of debt on many vulnerable consumers. Clearly it's important that the credit regulator OFT makes sure that it's using its powers and next year it's doing a review of compliance in the payday lending industry on things like rollover loans, mis-advertising and so on.

LEWIS: You say the OFT is doing a review of rolling over loans, for example, which is one of the big problems. There's nothing to stop firms doing that at the moment, is

there?

DAVEY: No, there's no regulation on that. We're in discussion with four of the trade associations that cover slightly over 90% of the industry to look at new codes of practice.

LEWIS: Well I'm trying to be clear how any sort of code of practice can stop rollover loans unless all these companies share data, so that if someone has taken out a payday loan with one company, then all the others in the business will know they've done that and will not lend to them again. Is that what these codes of practice are going to include?

DAVEY: We do want to see if there's a possibility for improving data sharing between different credit organisations. Data sharing has real potential.

LEWIS: Many people who've been in touch with us this week after the research came out earlier in the week have said why are they allowed to charge 1700%, 4000% APR? Why isn't that just banned?

DAVEY: Well the last government, they actually commissioned research on a cap on interest rates and they decided after that research showed that that would push people into the arms of illegal loan sharks not to go ahead with a cap. What we are doing is carrying out some more research, looking at another approach; that rather than capping interest rates, you should cap the total cost of credit. That research will I hope be published or should be published by September next year. But it is really important if you're going to intervene in any market to make sure you don't have unintended consequences and if we were to push people into the arms of the illegal loan sharks, that would be a disaster. Let's remember that some people use payday loans and many people use payday loans in a very sensible way; and if you look at the actual cost of using the payday loans, for many many people it's cheaper than most people who end up in the state of having an unauthorised bank overdraft where the actual cost of those unauthorised overdrafts can be a lot more than payday loans.

LEWIS: So will you also look at the high cost of unauthorised overdrafts?

DAVEY: Well we have indeed done that.

LEWIS: No, no, I mean as part of this research into looking at a cap on the total cost of credit.

DAVEY: Well we've already been looking into the problems of unauthorised overdrafts and the cost. Fortunately the average cost of an unauthorised overdraft has come down from £34 in 2007 to £14 in 2011.

LEWIS: No, I'm sorry, that's just not right. That is the cost of bouncing a payment.

DAVEY: Our figures come from the departmental research and they show the average cost, which, as I say, has come down from £34 to £14.

LEWIS: So let me ask you the question directly again. This research into a cap on the total cost of credit, will it include unauthorised overdraft charges?

DAVEY: No, it's focusing on the payday loans and that aspect. It's not focusing on the unauthorised overdrafts.

LEWIS: Consumer Minister Ed Davey. And you can hear last week's Money Box Live on credit and debt on our website: bbc.co.uk/moneybox.

A new investment fund is being launched in January with what it claims is a 0% management fee. The fund only earns money directly for investors if it grows faster than 1600 shares in an index called MSCI World. If it beats that, then the managers get a fifth of the gains and the investor keeps four-fifths. Although it claims its management fee is 0%, there is an administrative charge of 0.25% that goes to a separate company. The man behind the fund is Nigel Legge who used to run Liontrust. I asked him how he picked the shares to buy.

LEGGE: The investment process sets out to identify the very best companies in the world that demonstrate the highest economic quality.

LEWIS: Yes, but I mean you've got that vision in your press release. You say this is what a fund management company should offer. Don't they all try to do that? Surely there aren't fund managers who go out looking out for the worst performing companies?

LEGGE: No of course not, but the problem is that there are an awful lot of funds out there that investors can invest in, and the statistics about how many fail to actually achieve what they set out to achieve, the statistics speak for themselves.

LEWIS: So many people think, therefore, it's safer just to put your money in a tracker, so it follows the whole market and it's cheaper?

LEGGE: Well index funds and ETFs have been the answer to underperforming active funds until now. What we've identified is the common financial DNA shared by the very best companies with the highest economic quality, and the evidence is that forecasting share prices is almost impossible. Decisions based ...

LEWIS: (*over*) But you're making a forecast of the future. You're saying it's going to outperform the benchmark.

LEGGE: No, we're not. We know that companies repeat their behaviour and we've captured the DNA common to those companies of the highest economic quality who have demonstrated stability in that quality, and that indicates repetitive behaviour into the future. We're not making a forecast.

LEWIS: You've also got an unusual charging structure. How does that work?

LEGGE: This is part of the zeitgeist. An awful lot of people are complaining about bankers' bonuses, management fees, underperformance. It's been a hot topic that's

getting hotter and hotter by the day. We don't think this is fair. Our charging structure is absolutely fair and focused on the investor first and us second. If our performance is not better than the stock market, we simply don't get paid. We are not going to charge underperformance fees.

LEWIS: You say not better than the stock market. What benchmark will that be?

LEGGE: The benchmark for our global fund that launches early next year will be the MSCI World Index, which is a conventional benchmark of global equities.

LEWIS: So if your fund doesn't do better than money just invested in all those companies in the index, you won't charge anything?

LEGGE: Absolutely, nothing at all.

LEWIS: What about this .25% that you ...

LEGGE: (*over*) That doesn't come to Vinculum. That goes to the administrators who make sure that the fund is available for investors.

LEWIS: Sure, but it comes from the investor.

LEGGE: Sure, but it doesn't go ...

LEWIS: (*over*) So they do pay a charge even if you don't ...

LEGG: (*over*) They do, but they don't pay a fund management charge to the fund manager.

LEWIS: If that index falls, the customer could lose money ...

LEGGE: Yes.

LEWIS: ... and you could still get a fee if you'd fallen by less.

LEGGE: Indeed. If we've saved them from the depth of the fall in the index, of course because we've added value. We've saved them some money.

LEWIS: And supposing the fund does worse than the benchmark?

LEGGE: We get nothing.

LEWIS: Nigel Legge of Vinculum. And just time for an item of news. Ben, people with small personal pension pots will be able to cash them in soon.

CARTER: Yes, currently you can cash in a pension fund if your total pension savings are £18,000 or less, but that has meant people with a good company pension can be left with very small personal pension pots which can be expensive to turn into an income. But the Government now plans to let people cash in up to two small pension pots of up to £2,000, but no starting date has been announced for that yet.

LEWIS: Thanks for that, Ben. I can also tell you credit unions in Northern Ireland are going to be regulated with compensation up to £85,000 from 31st March next year. But that's it for today. More on our website: bbc.co.uk/moneybox. You can read my newsletter, which didn't seem to go out this week, and send us your ideas - as many of you do. Also have your say on car hire deposits. I'm back on Wednesday with Money Box Live taking your questions on banks and banking. I'm back with Money Box next weekend. Today the reporters Bob Howard and Ben Carter, the producer was Lesley McAlpine. I'm Paul Lewis.