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MONEY BOX

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LEWIS: Hello. In today's programme, the government is stepping in to try to curb the rising costs of car insurance. Will plans to end some referral fees be enough to bring premiums down? A new financial services firm says it'll collect the commission that's silently paid to your financial adviser each year and give most of it back to you. Can it work? The Swiss take emergency action to discourage people from buying Swiss francs as a safe haven. And the end, for quite a while, of National Savings Index Linked Certificates. Where can you still get a guaranteed inflation beating return?

But first, the government announced this week that it will ban referral fees in personal injury claims in a bid to curb the rising cost of insurance, especially car insurance. It says the ban could be in force as early as next Easter as part of a bill that's already before parliament. Earlier this year, in February, Money Box highlighted how insurance companies sold on personal injury details of people involved in car accidents. They sold them to lawyers and claims management companies, among others. Justice Minister Jonathan Djanogly told the programme honest motorists were seeing their premiums hiked as insurers covered the costs of evermore compensation claims.

DJANOGLY: What you have is a system at the moment where people are being encouraged to claim by claims management companies. Then they go to their lawyer. And they don't care what they pay their lawyer because we have a system at the

moment whereby even if they lose their case, they will have to pay nothing, so why shouldn't they sue?

LEWIS: Justice Minister Jonathan Djanogly talking to us in February. Well Ruth Alexander's with me. Ruth, you reported on the cash for contact story on this programme just over 6 months ago. Why has the government acted now to ban referral fees?

ALEXANDER: Well, Paul, the government's concerned about just how much motor insurance costs. The AA says the average premium has risen by a third over the past year, and that's on top of large rises over the preceding 2 years. When I looked into what was causing this in February, I discovered the number of accidents has actually been going down, but the average cost of each accident has been rising. In the old days, a car accident would usually just involve an insurance company paying for some repairs, but now an accident is far more likely to also involve car hire costs and personal injury claims. So accidents have become big business. As soon as you have a crash which is not your fault, you become a valuable commodity. Roadside assistance, the repair garage, your insurance company - chances are they'll all be wanting to sell on your contact details to a company that supplies hire cars and to a personal injury lawyer - and the money they make selling your details on is known as a 'referral fee'.

LEWIS: And who ends up paying these fees?

ALEXANDER: Well the insurance company of the motorist who's found to be at fault in the accident, and, ultimately, everyone buying car insurance. Nick Starling, a Director of the Association of British Insurers, spoke to Money Box at the time I first reported on this issue, and he told us it was a dysfunctional system that needed to be changed.

STARLING: If you're unlucky enough to be the victim of an accident and it's not your fault, you are a very valuable property. People are out to get to you, to get money

from you. You get endless phone calls from personal injury lawyers, you get the garage, you get the credit card companies coming out to you.

LEWIS: But they only know your phone number because someone has sold it to them and your members and other people involved are doing that all the time, pushing up the costs.

STARLING: Yes they are. They're in a system where that is how it happens.

LEWIS: That was Nick Starling a while ago. So what details do we have, Ruth, about how a ban on referrals might work?

ALEXANDER: Well the ban will only apply to insurance companies, lawyers and claims management companies. It doesn't stop garages and car hire firms selling customers' personal details on, so the referral fee is not dead. But the government is trying another tactic to control the costs of no win no fee personal injury cases which have been pushing premiums up. Losing defendants in personal injury cases will no longer have to pay a success fee to reimburse the winning claimant's lawyer. In future, the person making the claim will have to pay the success fee and that fee will be capped at 25% of the damages awarded.

LEWIS: Thanks Ruth. Well earlier today I spoke to Martin Saunders. He's Technical Manager in the claims department of the insurance firm Allianz.

SAUNDERS: I think it's an excellent start. I believe that politicians from all sides should be applauded for supporting this initiative, but what we need to see for the consumer is for this to go just a little bit further. Banning fees still leaves money in the system, and it's the money in the system that ultimately equates to the premium which consumers - you and I - are being charged for insurance. And those are the things that obviously are causing inflationary pressures at the moment and they're causing difficulty for the likes of you and I in order to meet those payments in order to put our children on the road.

LEWIS: But the ban only applies, doesn't it, to some of the fees? It applies to solicitors, claims management firms, but it doesn't deal with car hire firms that charge a great deal more or fees to repair garages who are also accused of charging more than they should.

SAUNDERS: The costs incurred by a claims department can broadly be scoped under three headings. One of those is under control in terms of the inflation and that's the way in which we deal with actually repairing the car, and broadly that's okay. The two areas which are problematical are indeed the mobility area, so credit hire, and the personal injury areas, which is obviously what we're talking about today.

LEWIS: And just to interrupt. Credit hire is of course the car hire business which if your car is off the road, you can hire a car; and there's a lot of price inflation and indeed referral fees there, aren't there?

SAUNDERS: Correct. And, as we understand the detail that has been announced thus far, those areas will not be touched by what has so far been announced. So we need to ensure that we continue talking with the government and those involved with the various bills and initiatives going forward in order to articulate a view that the proposals need to be extended beyond just lawyers and personal injury and fixed fees.

LEWIS: Do you think what the government's doing is going to be enough to bring premiums down?

SAUNDERS: I think it's an excellent start, but what we need to do is work out a ban on fees and the ban has to be watertight. We also need to look at the fixed costs regime of how solicitors get remunerated in all of this.

LEWIS: You've talked about the government and lawyers' fees. It is the insurance industry that's caused a lot of these problems though, isn't it, by paying all these referral fees? Is there more your industry could do?

SAUNDERS: You can't do it in a vacuum is the problem because if insurers did that tomorrow somebody else would step into our shoes, and we then wouldn't have a revenue stream into our balance sheets in order to offset some of those premiums. So if insurers did that tomorrow, it would actually have the reverse effect of what we would all like to see and we would actually have to charge more.

LEWIS: Martin Saunders of Allianz.

If you've bought a pension or investment in the last 20 years probably, the chances are a small amount of your savings drips out of your pot and into your financial adviser's bank account every year. It's called "trail" commission and is one of the industry's best kept secrets - typically around 0.5% a year, but can be three times that much, and over the years it can reduce the value of your investment by thousands of pounds. There's no point in asking the investment or pension fund to stop; it's in the contract. Now though an independent financial adviser has set up shop specifically to take this commission and give it back to you, or most of it. With me is Ivan Massow, Founder of Paymemy.commission. Ivan Massow, how will this work?

MASSOW: You'll go online. You'll use a little calculator to see how much commission may be paid on your particular account. There's a little slide bar. It's very easy. And if you like what you can see, you can push 'apply' and out of your printer - unfortunately this is the only manual bit - you sign a declaration which allows us to become effectively your IFA. When we receive that, we claim your commission and we send it to you minus our 20%.

LEWIS: Right, so you keep 20% for your costs?

MASSOW: Absolutely.

LEWIS: But you have to become the financial adviser of that particular individual?

MASSOW: We become what's called the servicing agent for that individual.

LEWIS: But you won't actually offer them any advice? You'll just be taking the money and ...?

MASSOW: Technically we are an independent financial adviser and we can give advice, but we've decided not to do that. We've decided just to become the servicing agent and outsource ... If someone requires advice, we'll point them in the direction of an adviser.

LEWIS: Okay, well also with me is Brian Dennehy, a Director of independent financial advisers Dennehy Weller. Brian Dennehy, can this work?

DENNEHY: Oh undoubtedly it can. There are quite a few people out there who don't receive advice and more importantly there are lots out there who don't need advice. They're actually qualified sufficiently to take their own advice.

LEWIS: *(over)* Sure, but their IFA is getting money, isn't it, to give them advice?

DENNEHY: Absolutely. Well the point is if they've gone to an adviser in the first place, they presumably needed advice. If they are no longer receiving any advice - because that trail commission is supposed to pay for an ongoing service - if they're not receiving that ongoing service, then they should take action on one of two grounds. They should either find an adviser who will give them advice if they still need it, or use a service like Ivan's - and there are 26 others out there I've found who do something similar - use those. So there are plenty of options.

LEWIS: Ivan Massow, how do you distinguish yourself? I mean I've had a tweet just this morning saying, 'I've been getting the refunds you mentioned from a company called Cavendish' and there's one called GoFifty50 who's been in touch with us. There are several others. What's new about what you're doing?

MASSOW: Well the name GoFifty50 suggests they share the commission 50-50 and we share 80-20. But also we're geared up for mass markets, so it's pretty much

entirely automated. It's built on a large scale and designed to handle the 10 million people who are about to be orphaned as a result of RDR, this new legislation which will leave people you know adviser-less.

LEWIS: These are the people who currently have an adviser who you're saying will go out of business following these rule changes in 2013?

MASSOW: Or the treasury are saying that, yeah.

LEWIS: Yes, the treasury's giving that figure. So you hope to pick some of them up?

MASSOW: Absolutely.

LEWIS: But there are good IFAs, aren't there, and there's a growing number of good IFAs who offer continuing advice for this money? Why should you be trying to take their business off them?

MASSOW: I'm not specifically trying ... I don't think anyone with a good IFA is going to come to us, but someone who is dissatisfied with their IFA probably will hit the 'apply now' button; and if they don't have an IFA at all that commission is being completely wasted and they might as well have it themselves.

LEWIS: Brian Dennehy, I got an email this morning into the programme saying - this is from Adam - who said 'I found out about trail commission, overhearing a conversation in a pub.' That implies most people don't know about it. If people don't know, they're not going to ask for the service, are they?

DENNEHY: Well it implies one person didn't know about it. In fact for a number of years, for quite a few years, advisers have had to declare that in pounds, shillings and pence in the initial letter when the product was purchased. But there are two problems there: one is inertia amongst the investing public (and we have to deal with that as well through these sorts of conversations, make people more aware); and the second

then is, as Ivan himself has said, there are advisers out there who then don't provide an ongoing service to justify that payment being made at all.

MASSOW: There's a slight problem with that - is that also when you take out a policy, you're paying £200 a month into a pension scheme. The trail commission looks very small because it's a percentage of your fund, but when you get to my old age - your 40s and 50s - the amount of money in your fund is quite substantial and that's when it makes a lot of difference.

DENNEHY: And that's where the adviser has to illustrate year on year that they are adding value to ensure that that 0.5% is an insignificant sum. And that's what good advisers do do.

LEWIS: Good advisers certainly. I think we all accept that. The problem people have raised with me about this, Ivan, is that why are you taking a percentage? You're offering a fairly flat rate. Why don't you just take a fee? They're also suggesting that this is a withdrawal from a pension and could be taxed. There's all sorts of tax and regulatory issues. There's a lot of hostility towards you in the IFA community, isn't there?

MASSOW: Yeah there's lots of hostility. It's kicked up a lot of anger, and I think understandably. The reason we didn't go down a flat fee basis was simply that we had to add 20% VAT to it. In the end, after playing with it and playing with it, we just ended up taking a percentage ourselves because if we split the commission there's no VAT.

LEWIS: Okay, I must ask you very briefly - the last business you were involved in, you sold it, then it went bust. What will people do if this one doesn't work ...

MASSOW: *(over)* That's kind of you to bring that up. *(laughs)*

LEWIS: ... doesn't work as you hope it would? Will they lose anything?

MASSOW: No-one loses anything, no. First of all, all client monies are ring-fenced and they take them immediately anyway. They get sent directly to the client. But also they would simply move their servicing agent to someone else - maybe to GoFifty50 perhaps. *(laughs)*

LEWIS: So the commission would still be there. Sorry, I've got to stop it there. Brian Dennehy and Ivan Massow who you just heard then. And you can let us know your experiences of commission and your thoughts on this scheme through Have Your Say on our website - many people are - bbc.co.uk/moneybox.

Now just 4 months after we reported the re-launch of Index Linked National Savings Certificates, they've been withdrawn. Around half a million people had put money into them to get the guaranteed tax free return - slightly above the rate of inflation, whatever that turned out to be. We'll find out in a couple of minutes what alternatives there might be. But first here's Jane Platt, National Savings' Chief Executive. I asked her why they'd stopped this most popular product.

PLATT: At the beginning of the year, the Chancellor gave us a net financing target of £2 billion, which allowed us to put index linked savings certificates back on sale; and in the just under 4 months that they have been on sale, we've seen very substantial inflows. That meant that we were close to breaching the top end of our net financing limit, and under those circumstances we needed to withdraw the product.

LEWIS: I think when we last spoke, you said to raise £2 billion net meant you had to sell about £15 billion of new products because obviously people are cashing them in all the time. Five hundred thousand people even at the maximum on index linked is only half that, isn't it - 7.5 billion?

PLATT: The net financing that we'd raised in the first quarter of the year, which included the spike when index linked savings certificates were first introduced - at the end of that quarter, our net financing figure stood at 3.8 billion. So that we need to take into account the changing economic circumstances and trends in our other

products, so it's in that context that we needed to take the decision to take index linked savings certificates off sale.

LEWIS: And it wasn't just index linked, was it? It was the fixed interest savings certificates and most, in fact all your guaranteed products except for the children's bonus bond.

PLATT: We have premium bonds on sale, which of course are our largest product, and those are tax free. We have our direct ISA, which is currently offering a rate of 2.5% on sale. So that we do have tax free products on sale at the moment.

LEWIS: Given that you've already reached your net financing target for this year, can we assume we won't see any new certificate issues until the next financial year?

PLATT: We certainly have no plans to reintroduce index linked savings certificates this financial year.

LEWIS: Does that also apply to the fixed interest savings certificates?

PLATT: I would be very surprised if there were another issue of fixed interest savings certificates this year.

LEWIS: Well that was National Savings boss Jane Platt with some rather bad news for savers. Live now to talk to Kevin Mountford of Moneysupermarket.com. Kevin, index linked certificates, other saving certificates have gone. Is there any replacement on the market?

MOUNTFORD: Yeah, I mean I think that we saw one or two I guess index linked tracker products coming into the market on the back of all the focus round high inflation and the difficulty savers have got, but they are very limited and I certainly wouldn't think that we'll have seen any that have got the level of attraction of NS&I bearing in mind you'd have got an established brand, government guarantee on top of

the tax benefits, etcetera.

LEWIS: Yes, tax free. I mean some people have looked for them and got a bit confused by the Post Office offering, which of course they always associate with National Savings. But that's very different now, isn't it?

MOUNTFORD: It is. And, as I say, one or two products came out to the market on the back of all the focus. Being a little bit cynical, I think when you take a tracker product on an index that's maybe at a peak, then you have to be very, very careful and read the small print. I mean taking the tax element aside, compared to some of the products that are left on the market, you may even get a better return from more traditional fixed rate savings products.

LEWIS: So name a few of those. What can you get? You've got to be prepared to tie your money up, of course for 5 years to get the best rates, haven't you?

MOUNTFORD: You have. And so the Post Office account is paying you 1.5 over any change in inflation. So if you're looking at 5 years, the likes of Birmingham Midshires have got 4.5%. If you wanted to look at a shorter term option, maybe waiting for the likes of NS&I to come back, you've got a 2 year paying 3.8 from Santander. One of the interesting things around trackers, it wasn't that long ago we thought that maybe we'd see some changes in base rates and there are a couple of base rate trackers, but I guess now with the economic conditions they're not as attractive as they could have been.

LEWIS: And so in summary, Kevin, where would you put your cash if you had a few thousand pounds, as many of our listeners would like to have put it into NS&I and now it's gone?

MOUNTFORD: Yeah, well I think certainly the tax element of it, then fixed rate ISAs - the likes of Northern Rock at 3.2% for 1 year, NatWest RBS at 4% for 3 years. The only thing I would say is don't sit around waiting for the next NS&I campaign.

Most savers, we know, if they're more active can do better than they currently are. There is lots of competition still out there.

LEWIS: Yeah and you've got to look at it every year and check it regularly to get the best deals. Kevin Mountford of Moneysupermarket.com, thanks.

Now Switzerland took the surprising step this week of devaluing its currency. The Swiss franc has become a safe haven for money with the euro and the US dollar under pressure and huge uncertainty on investment markets. And, as with anything else, the more demand there is for a product, the higher its price, and Switzerland decided the price of the Swiss franc was just too high. Izabella Kaminska is a writer for the Financial Times market blog Alphaville. I asked her just what the Swiss had done.

KAMINSKA: The Swiss Central Bank announced this week a very major intervention in the foreign exchange market to try and weaken the price of the Swiss franc versus the euro because they believed it had got too strong and was still very massively overvalued. It's very important to understand that this was not a move designed to peg the Swiss franc to the euro, which means the franc would basically move in line with the euro, but rather to put a floor on the rate so it can't get any stronger.

LEWIS: And why did it do that?

KAMINSKA: Well the very strong franc hurt the Swiss economy. Anywhere beyond 120 was really seen as massively overvalued, at which point all businesses were probably going to start to suffer - so mainly the Swiss exporters and anyone else doing business on the international market - because at that point your goods become completely uncompetitive versus your neighbour's goods.

LEWIS: And this is happening because people are buying Swiss francs because they believe more in the Swiss economy than they believe in the Eurozone economy or the US economy?

KAMINSKA: Absolutely. The Swiss franc is perceived as a safe haven and most people currently consider it to be almost as good as gold. In fact until very recently, until the Swiss Bank intervention, you could see very interesting patterns in the way the Swiss franc was trading and how gold was trading. The two were very much converged because people really did see them as a like for like almost.

LEWIS: Is this part of a bigger picture about the world's economy and what's happening to it?

KAMINSKA: Absolutely. There's basically too many people wanting to keep their money in safe havens. They're not wanting to put their money in risky assets. They're opting to forego risky assets which might rise in value and saying well, no, we're not prepared to take the risks associated with that. We're going to put our money into deposit accounts instead and we don't mind if we don't receive a big interest.

LEWIS: And if this money's no longer going to go into Switzerland because people know it's not going to go up any more, where else is it going to go? What are the other safe havens?

KAMINSKA: There's not many, that's the problem. There aren't really very many alternatives. The Norwegian krona is one possible alternative, but it's very likely that if a lot of money flowed there that the central bank might be encouraged to do something very similar, so you've got a vicious circle of unilateral moves that just pushes the money around.

LEWIS: You work in Geneva. What's the atmosphere been like there?

KAMINSKA: Everyone is talking about the Swiss franc. Everybody is concerned about the strength of the Swiss franc. We've seen a lot of companies worried about overheads, especially foreign companies who relocated to Geneva - suddenly they're not so sure, did they make the right decision? If they have a lot of Swiss franc costs, it's really proving to be somewhat of a divisive issue now.

LEWIS: And are you paid in Swiss francs?

KAMINSKA: *(laughs)* I'd rather not say, but actually soon to be.

LEWIS: *(laughs)* Just after it's been devalued.

KAMINSKA: Exactly.

LEWIS: Izabella Kaminska, a writer for the Financial Times market blog Alphaville.

Now Switzerland's dramatic action is an alternative to imposing negative interest rates, which it did in the 70s. In other words, if you deposit money, you get out less than you put in. It seems a strange idea. But one major US bank has done just that recently for big depositors. Ruth Alexander's still here. Ruth, we're used to very low interest rates - but negative rates, who's doing that?

ALEXANDER: It's the Bank of New York Mellon. It has a reputation as being the safest bank in America, and because of this, like Switzerland it was attracting too much money. Its solution was to tell its big depositors that if they paid in more than \$50 million, they'd have to pay the bank when they took the money out again. Now the rate is low - minus 13 ... sorry minus 0.13% - but it does mean that if you put \$50 million in the bank, you would get \$65,000 less when you took the money out.

LEWIS: Yes, that is strange. What are you paying for?

ALEXANDER: Well what people are paying for is a safe haven. And the reason the bank has decided to charge is that in these strange times attracting business is not that good for the bank because it says it can make very little by using that money, but holding money for people does incur costs. Now its big customers will put up with these negative interest rates because safety, not returns, is what people care about at the moment.

LEWIS: Thanks Ruth. So when you get 0.5% on your money, remember at least it's not negative. Of course that's before inflation. Bob Howard's here. Bob, the Office of Fair Trading has discovered some serious problems for people trying to buy the cheapest heating oil.

HOWARD: Yes, Paul. We found that some customers could have been misled by websites which look like price comparison websites but were in fact run by individual heating oil companies. Some of these sites also offered false testimonials and 4 million households in the UK are not connected to the mains gas grid and many of these rely on heating oil.

LEWIS: Thanks very much for that, Bob. Well that's it for today. You can find out more from our website, bbc.co.uk/moneybox, where you can sign up to my newsletter, read it, download a podcast, listen again, send us your ideas, and of course have your say on commission - trail commission particularly. Vincent Duggleby's back here on Wednesday with Money Box Live, this week taking questions on renting and letting. I'm back with Money Box next weekend. Today reporter Bob Howard, producer Smita Patel. I'm Paul Lewis.