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MONEY BOX

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LEWIS: Hello. In today's programme the cost of claiming on your house, car or travel insurance is rising, and sometimes you can be charged more than once. Ben Carter's here. He's been online shopping.

CARTER: Yes, should you really be credit checked if you just want to pay for something by debit card?

JENNY: I didn't want to have a credit agreement with Next. I wanted to pay for the goods immediately, and I just felt that this was totally the wrong way round of doing things.

LEWIS: Just what is the government planning on public sector pensions and why are more changes needed? And I talk to the MP who's called the plans to phase out cheques an "appalling mess", and hear from a retail director of a major bank.

But first, insurance companies are increasing the amount customers have to pay when they make a claim on their policy. Figures exclusively prepared for Money Box by the independent financial research company Defaqto suggest the average cost of what is called the "policy excess" has risen sharply over the last 3 years, and some insurers are taking even more money from customers by charging that excess several times on a single claim. Ruth Alexander's been examining the figures.

ALEXANDER: The researchers looked at the excesses charged on standard travel, motor, buildings and contents insurance policies since 2008. The price trend is upwards for all of them. For example, in 2008 a quarter of car insurance policies had an excess of more than £75 for replacing the windscreen. Now almost half do. And half of home insurance policies have a standard excess of £100 or more. It used to be just less than a third. The insurance industry says excess charges allow companies to keep their premiums down. It's the premium price that consumers tend to focus on. Mike Powell, an analyst with Defaqto, says that could be an expensive mistake.

POWELL: What's happened with the price comparison websites is they've come along and it's sort of educated the consumer that price seems to be the most important factor when it really isn't. At the end of the day, it's about the actual policy cover that is offered. And also you need to know what the excess levels are because when it comes to a claim stage, if you don't understand that you've got say, for example, a £250 excess, for some people that's a lot of money to find.

ALEXANDER: The Financial Ombudsman Service says it gets hundreds of complaints about excess charges every year. And the thing is often there isn't just one excess charge to pay on a single claim; there's several. David Cresswell from the Ombudsman Service told me about the case of a man who tried to claim for woodpecker damage to his shed.

CRESSWELL: The insurer decided to deduct an excess for each hole the woodpecker had made on the basis that each hole was a separate incident and, therefore, the excess applied to each hole. There were 150 holes. So obviously we decided this was a nonsense; there was no money left under the insurance claim after the excesses had been applied. We simply decided that was unfair.

ALEXANDER: He admits that this was an unusual case, but he says the Ombudsman has upheld other complaints about multiple excesses unfairly being applied on one claim. It recently upheld the complaint of a family of four who lost their two suitcases and made a claim. The insurer then charged an excess for each person.

LEWIS: Hang on, so the excess was charged four times for losing two suitcases?

ALEXANDER: Yes. But as two of the family members were under 10 years old, the Ombudsman thought that was unreasonable. In the end just two excess charges were applied. But multiple excesses are increasingly a part of, in particular, the travel insurance world. Defaqto's figures show that most policies apply a separate excess charge for items or incidents covered by different parts of your policy, and what this can mean for the cost of a single claim can take people by surprise. Here's Graeme Trudgill from the British Insurance Brokers' Association.

TRUDGILL: If we were to look at someone that was unfortunately mugged on holiday. So they might have their bag taken, they might have suffered an injury. In that bag, they might have their money, their passport, a camera. So on the policy five different sections are going to respond here. You've got your medical expenses, your baggage, your money, your passport and your valuables. Now one cheaper policy we looked at, they would apply a £75 excess to each of those five sections. That would mean you would not be able to claim for £375.

ALEXANDER: And the number of companies charging multiple excesses is growing. But we know of 17 providers who have travel policies that only apply a single excess for a single claim. Among the better known are Age UK, Churchill, HSBC, Marks and Spencer, and Yorkshire Bank.

LEWIS: Ruth Alexander reporting. Nick Starling is Director of General Insurance at the Association of British Insurers. I put it to him that putting up excesses amounted to a hidden price rise.

STARLING: Well it's a way of keeping prices lower than they otherwise would have been, and particularly in areas like motor insurance where we know there have been large increases. If you have a higher excess, the premium tends to be lower, and the key thing is that people understand that when they're buying it.

LEWIS: Are you saying that excesses are rising to keep insurance premiums at the level they were? Wouldn't a more honest way be to increase the premium if the cost of insurance is going up?

STARLING: I think consumers have that choice. And when insurance does go up, they can decide themselves and it's quite easy to do so when you go on a comparison website.

LEWIS: Very often though it's not really clear, is it, and we've seen examples of cheap travel insurance where there is an excess of say £75, but then you discover that it's a separate excess on every bit of the claim. So if you're mugged you might need medical expenses, your cash replaced, your passport, your personal possessions replaced, but you're charged £75 on each of those bits of the insurance.

STARLING: Well that partly reflects the fact that travel insurance covers a lot of very different sort of potential claims. You know, lost possessions is generally in the hundreds, whereas emergency medical treatment can be in the thousands, and it simply reflects the fact that there's a lot of different things covered by travel insurance.

LEWIS: Sure, but they're having multiple excesses as a way of apparently giving you a cheaper premium. But, as with so many things in insurance, you know, you get great piece of mind until you make a claim and then you discover these problems.

STARLING: Insurers pay a lot of claims all the time. They pay £58 million every day in claims, so they're not escaping paying claims. The key thing is to see what you're buying and take a little bit of time when you're buying your insurance.

LEWIS: Nick Starling from the ABI. And you can have your say on insurance excesses, tell us what you pay when you claim, on our website: bbc.co.uk/moneybox.

The number of people shopping online continues to grow. Online sale figures for the

UK for January and February this year were a staggering £10 billion, up 20% on the same period last year. But online sales inevitably result in plenty of terms and conditions, which some people choose not to read, and even those who do might not find them that easy to understand. Credit checks for debit card payments, large credit accounts opened for small purchases - shopping online can be confusing, as Ben Carter's been finding out.

CARTER: Yes, Paul. Jenny from New Malden contacted the programme. She went onto the Next website and bought two pairs of children's leggings costing just £10. She went to the online checkout and tried to pay by debit card, and that's when the problem started.

JENNY: I expected to be able to make a payment, as you can make on most websites, but what happened was a credit agreement was immediately started and I was told I had a £600 credit limit and the goods was taken from that. I wasn't able to make an immediate payment although I tried to, and I was very worried because three days later I then received in the post some papers that I was required to sign and send back agreeing to this credit limit. I didn't want to have a credit agreement with Next. I wanted to pay for the goods immediately, and I just felt that this was totally the wrong way round of doing things; that I should have been able to opt into a credit agreement. When I phoned up, they told me that because I had a good credit rating the credit agreement was given a automatically.

LEWIS: So, Ben, Jenny wanted to pay for leggings costing a tenner and she ended up with 600 pounds worth of credit she didn't want?

CARTER: That's right. The process of registering for an account with Next appears reasonably straightforward - you're asked to enter your name, address, date of birth and email address. On the page where you complete the process of registration, there is reference to a credit account being opened but it was stated in feint print. When I asked Next why the text was lighter than the other key phrases, they changed it back to bold within 24 hours. But as soon as you've entered your details and clicked 'complete' - and importantly before you're given the option of paying for your goods by card - a credit check is undertaken and a credit limit is assigned to you if you are deemed eligible.

LEWIS: So a credit check's done even if you want to pay by debit card?

CARTER: Yes and Next have confirmed that it's a check which does leave a mark on your credit file, so that other lenders can see you've applied for credit. Next will be changing this and in future the marker will not be visible to other lenders.

LEWIS: And what is the interest rate if you choose to pay for goods on your account?

CARTER: Well it's 26.5%, which is about 8% above the average credit card rate, but there is an interest free period of up to 21 days.

LEWIS: So what does Next say in response to all this?

CARTER: They say that the Next Directory has 3 million customers and that the number of complaints they receive is small in comparison, but that all complaints are taken seriously. They also say that the credit limit given to a customer when opening an account is only by way of illustration and only becomes active when the customer opts not to pay by debit card.

LEWIS: Well that's something Jenny and others obviously didn't realise. The Office of Fair Trading, they're responsible for looking at online credit, aren't they? What did they have to say to you?

CARTER: Well a spokesperson told me that they would expect all businesses to be transparent about their terms and conditions, in particular in respect of any potential risks to consumers. And this would include making it clear (if it is the case) that they will be subject to a credit worthiness check, which could result in an adverse marker being left on their credit record and could impact on their ability to obtain credit in the future.

LEWIS: Thanks for that, Ben. Well now let’s talk to Tim Moss from Moneysupermarket.com. Tim Moss, how do you react to the way Next sets people up for these credit accounts?

MOSS: I must say until your listener kindly spoke out, I really thought Next was a clothes shop. I mean I’m really not sure now whether it’s a clothes shop or a finance provider, I must say. I mean the last thing I expect really when I’m going through to go and buy you know a T-shirt that might cost £9.99 is to have what the industry call a hard footprint against your name. It’s just not right.

LEWIS: Yeah, I mean the point Next makes, they do this credit check even for people who want to pay for goods by debit or credit card, but they say it’s to protect them against bad debt.

MOSS: They say, you know, that it’s a fraud search. Well, you know, I can use any other retailer who’s prepared to deliver any amount of goods to my house without doing this. This is obviously a simple matter - the fact they want to be able to see if they can actually sell somebody a finance account. You know it’s this kind of free I guess, you know, availability of finance that in some respects you know got us in this country into the state we are in now.

LEWIS: Yes, though, I mean, I must say people who shop online should check what they’re signing for. I mean there are terms and conditions. They’re very often lengthy and sometimes a bit obscure, but really you shouldn’t tick that box until you have read them. I’m sure we all do do that sometimes, but you shouldn’t, should you?

MOSS: No. And you made the point this morning, Paul, when you were on TV, when you were talking about the fact that with this excess on policies, you were talking about the fact that it was in, you know, Section 94 double blob B, I think you called it. And you know there is, I totally agree with you, some kind of onus on the consumer to read all the Ts and Cs, but the Ts and Cs these days are so long to protect retailers and finance companies. That actually we just want to complete a purchase. We're buying a £9.99 t-shirt. We're not signing for a motor vehicle.

LEWIS: *(laughs)* No. And what do you think … offering someone a credit limit of £600 when in this case they just wanted to pay for something for a tenner, is that what you would call responsible lending?

MOSS: Exactly, Paul. I mean £600. I wanted a £10 T-shirt. What that's doing is obviously putting temptation in front of that customer. Suddenly they've now got £600 availability to spend on clothes. Now, you know, we're talking about austerity, we're talking about trying to save money. We're not talking about suddenly giving somebody £600, which is a lot of money, to spend on clothes. What are we doing putting that in front of the customer?

LEWIS: And talking of putting things in front of the customer, the conditions on the website - not the terms and conditions but the things you see in bold or (in one case before Ben Carter intervened) very feint print - how clear should they be? Is that where treating customers fairly really comes in?

MOSS: It is. You know if a customer wants to pay on their debit card, effectively they've got the money sat in their account. Or if they want to pay on their credit card because they've just signed up for an 18 month interest free, not 21 day which they quote, then actually it should be in bold. We've got to help customers. You know they're selling clothes, not finance.

LEWIS: Tim Moss from Moneysupermarket.com, thanks very much for that.

Big changes to the pensions earned by more than 5 million state employees were announced late on Friday. Treasury Secretary Danny Alexander told a conference that the age to claim the pension they earned in future would rise to match state pension age.

ALEXANDER: It's only right that public service workers, like everyone else, work that bit longer and contribute that bit longer to their pension. For that reason, we are proposing to link the normal pension age to the state pension age. That is, we propose linking the age you can draw your occupational pension to the age that you can draw your state pension, and the two would continue to track each other in the future.

LEWIS: Danny Alexander also confirmed that there'd be an average rise of 3.2 percentage points in the contributions, but lower paid workers would pay a smaller rise or none at all.

ALEXANDER: We are proposing in particular that the lowest earners will face the least or even zero increase in their contributions. Our proposal would not increase contributions at all for those earning less than £15,000 a year, and we propose a limit of 1.5 percentage points increase for those earning up to £18,000. This would be progressive and fair.

LEWIS: Danny Alexander. Well his announcement has upset trade unions who thought they were still negotiating on some of these matters, and one of them - as you heard in the headlines, Dave Prentis - has already threatened the worst strikes since 1926 over planned cuts to state worker pensions. With me in the studio is Graeme Cooke, pensions expert at the think tank IPPR, which is where Danny Alexander made his announcement yesterday. Graeme Cooke, just before we look at what he said, there was a government report in March, the Hutton Report, which showed the cost of public sector pensions will actually fall as a share of our national income over the next 50 years. Do we need more changes?

COOKE: Well this issue, which has now become a massive hot potato politically, is sort of obscuring this sort of central fact, which is that the Hutton Report back in March found that the cost of public sector pensions would peak this year at 1.9% of GDP and then progressively fall - partly because of policies already in place - to 1.4% of GDP in the second half of the century. So in one sense the burning need to raise contribution rates, which is what really underlies the political controversy of this issue, is perhaps not needed as much as ministers suggest.

LEWIS: But having said that, of course, taxpayers do pay out a lot of money for these pensions. It's in the tens of billions. Is it 23 or 32?

COOKE: *(over)* I think it's in the 30s, I believe. No, it's a huge burden on the public finances, partly because we are all living a lot longer, and the sensible reforms that John Hutton proposed and that the government have said they want to accept, such as increasing the retirement age and moving away from final salary pensions, have a lot of merit. But in the short-term, the real political issue is the increase in the contribution rate.

LEWIS: We'll come back to that. But also listening to us is Richard Wilson. He's Senior Policy Adviser at the National Association of Pension Funds. Richard Wilson, your members are mainly private sector pension schemes. How do these what are often called gold-plated public sector pensions, though I know that annoys the people who don't get very much from them, how do they compare with those still available in the private sector?

WILSON: Well obviously the big change that's happened is in the private sector. Most defined benefit or final salary schemes are now closed to new members and many are now closed to all future accrual and the existing members have been moved out as well. And so the big difference between the public sector and the private sector is in the public sector final salary schemes are still available.

LEWIS: Right, so they're still keeping them. And after these changes, how will they compare with the diminishing number of final salary schemes in the private sector that you can still join?

WILSON: Well the change that Lord Hutton is proposing, which we think is quite a sensible change, is to move to career average, which can be much fairer on people on lower incomes who are not therefore subsidising the people on higher incomes.

LEWIS: So you get a pension related to the average pay over your career, not your final pay, and of course that helps people who are not high-fliers, who don't get lots of promotion. And just looking at these contributions - which, Graeme Cooke, you were saying this is the big controversy at the moment - they are being phased in over 3 years and some people will pay much less. I mean is that going to take the sting out of them, do you think?

COOKE: Well that's clearly what ministers hope. They pre-empted the announcement of the overall package by saying that they wanted to raise a further £1.8 billion in employee contributions over the next 3 years, and the decision that the Chief Secretary announced yesterday was that that would be exempted for those earning less than £15,000. But clearly the government still want to raise the same amount of money overall, and so that additional revenue is going to have to come from even higher employee contributions from those earning more.

LEWIS: So they could go up by 3... well by more than 3.2%. And these are percentage points, important to stress. So if you're already paying 6% (like teachers do) another 3 percentage points is 9%, so it's going up by half.

COOKE: Exactly.

LEWIS: And if it's going to be 4% or 5% for some people, it's going to be even more. Does that mean people are going to leave because it's just going to cost them too much money?

COOKE: Well that is the big fear, which people from the pension schemes have mentioned, because obviously it comes alongside the public sector pay freeze, which means that people will be earning less and being asked to pay more.

LEWIS: And Richard Wilson, can I just put that to you as well. Do you think from your experience in the private sector that higher contributions will make people leave what really are still pretty good pensions?

WILSON: Well that's the big concern and we have lots of members running public sector schemes as well. If the contributions go up too much that people will leave, and that will be a disaster all round really because it'll be a disaster for the government because they won't be getting in the contributions into these schemes which they're relying on to try and reduce the deficit over the next few years, but it'll also be a disaster for people who are trying to save for their retirement and we'll see less people saving in the future.

LEWIS: Richard Wilson from National Association of Pension Funds, thanks, and thanks to Graeme Cooke from IPPR.

The government has threatened to step in and stop the banks scrapping cheques in 2018. The Payments Council, which is run by the major banks and runs the clearing system, announced in December 2009 that it planned to close the cheque clearing system if there was an alternative to cheques. But this week Treasury Minister Mark Hoban criticised the Payments Council's lack of planning or research, and he threatened to intervene if no flexible and easy to use alternative was found. The plans were also strongly criticised this week by MPs on the Treasury Select Committee. Chairman Andrew Tyrie left no-one in doubt about how he felt.

TYRIE: This is an appalling mess, isn't it? This is a shocking mess. In fact it's s scandal. I mean here you are trying to tell us that there hasn't been a colossal error of judgement, but it's even worse than a colossal error of judgement, isn't it? You've got the banks out there right now telling customers that cheques are for the chop.

LEWIS: Well strong words from Andrew Tyrie. I asked him how he responded then to the minister's letter threatening to stop the banks scrapping cheques.

TYRIE: It's clear that the Payments Council no longer has the confidence of the government on its decision on cheques. I think it lost the confidence of parliament some time ago, but it's now got the treasury and parliament to try and satisfy. In that letter that he sent me, the Financial Secretary accuses the Payments Council of having done no cost benefit analysis, having no plan for managing the withdrawal of cheques, and having provided no indication of what the alternative would be, generating a huge amount of alarm and uncertainty among elderly people and the vulnerable, and frankly I agree with him.

LEWIS: Do you also agree with his idea that redesigning the current system to deal with a declining number of cheques might be better than inventing a completely new system?

TYRIE: Yes. And what's more, if you look carefully at the letter not only does he say that there's maybe no credible or coherent case for abolition. He also makes clear he'll intervene - i.e. he might legislate in order to ensure that cheques don't get abolished. So this is a very powerful shot across the bows of the Payments Council.

LEWIS: But at your meeting, from what I've heard of it, the Chairman of the Payments Council, Richard North, played very straight, didn't he? He repeated what the council has said to us and to others, that they are not going to abolish them unless they have a credible alternative.

TYRIE: In which case why two years ago did they give everybody the impression cheques were for the chop? That's certainly not the right way to make policy. What we've got here is an object lesson actually in how not to conduct public policy. Don't frighten people and think things through before you set off. They should now take no action at all in this field without prior consultation not only with the treasury but also with the Treasury Select Committee and Parliament.

LEWIS: MP Andrew Tyrie and Chairman of the Treasury Select Committee. Well one retail bank, RBS NatWest, seemed to hint last month it wasn't happy with the plans to phase out cheques. Brian Hartzer is its Head of Retail Banking.

HARTZER: Well we've made it very clear that we are not going to abolish cheques until there are credible alternatives out there for customers to use that they're happy to use. And I thought it was very important that we do make that point; that it's quite clear that for a number of groups of our customers - be they older people, charities and business customers - that at this point in time there isn't a viable alternative for cheques.

LEWIS: Yes, but that is the policy of the Payments Council, isn't it, and it's the one that everyone talks to us about and has done for some time. But no-one has conceived of a viable alternative and this process has been going on for 18 months now, so what might a viable alternative be?

HARTZER: That's a very good question and I think clearly this development in terms of mobile phone payments and online payments, debit cards, it's certainly something that as time goes on if it isn't going to be realistic, then it's something that will have to be changed.

LEWIS: It would be changed if you didn't have an alternative when?

HARTZER: I wouldn't like to put a specific date on it, but I think clearly a change of that magnitude would need an awful long lead time. So, you know, if we haven't got a pretty clear idea of things in the next year or two, then I guess those deadlines start to look a bit silly.

LEWIS: Wouldn't the sensible thing to have done be to develop the alternative and then announce it, rather than announce the plan and then scurry around trying to find the alternative?

HARTZER: Yuh, I think that probably in hindsight would have been a much more sensible way to go about it. I would certainly agree with you that the industry has not handled this issue well.

LEWIS: Brian Hartzer from RBS NatWest. And banks and banking and how they treat us is the subject for Money Box Live with Vincent Duggleby on Wednesday at 3 pm. But that's it from me for today. You can find out more from our website, bbc.co.uk/moneybox. Sign up to the newsletter, send us your ideas, have your say on insurance excesses. As I said, Vincent's here on Wednesday with Money Box Live with questions on banking. I'm back with Money Box next weekend. You can read my money thoughts whenever I'm awake on my twitter: Paullewismoney. One listener liked the piece on travel insurance excesses and he's changed his policy as a result. Today the reporters Ben Carter and Ruth Alexander, producer Lesley McAlpine. I'm Paul Lewis.