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MONEY BOX

Presenter: PAUL LEWIS

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LEWIS: Hello. In today's programme, the banks refuse to process claims for mis-selling Payment Protection Insurance despite losing a crucial case in the High Court this week. A barrister tells us they're wrong. What would you do if you got a letter like this from HM Revenue & Customs?

READING: HMRC LETTER: We are arranging a visit to your house. We will view your possessions and list those we will sell at auction.

LEWIS: As gold reaches a record price, is now the time to buy or to sell? And …

MUSIC: 1999 Performed by Prince

LEWIS: … we travel back in time to see if Money Box advice given in the past turned out to be good or bad.

But first, brown envelopes marked Her Majesty's Revenue & Customs are seldom welcomed on the doormat. But when you owe a small amount of tax and are on the brink of paying it, you don't normally expect to get a letter like this.

READING: HMRC LETTER: We are arranging a visit to your house. We will view your possessions and list those we will sell at auction. We strongly advise you to avoid this as it will cost you much more and can be embarrassing.

LEWIS: Well that letter was received by 74 year old widow Susan Colborne-Baber who needed a few more weeks to find the £368 she owed.

COLBORNE-BABER: I found it very upsetting and very frightening. I asked for a complaints department, but that was absolutely flatly refused. The person that I spoke to on the phone, I have to admit was quite polite, but all he could say was “Well your tax is due by 31st January and that’s when you should have paid it”. I will pay the amount and I plan to pay it early next month - i.e. May. I think that the tax office have got this completely and utterly wrong. And I would like to say that I’m 74 years old, I’ve taken nothing out of the system except my old age pension and my tax has always been paid. Sometimes it’s been a bit late, but it’s always been paid, and yet I get treated like this. I think it’s appalling.

LEWIS: Accountant Neil Beverton says letters like this are getting more common. Before we hear from him, here’s a similar letter to another of his elderly clients.

READING: SECOND HMRC LETTER: I will be asking one of our field agents to call at your house to remove your possessions and sell them at public auction in order to clear the debt.

LEWIS: So I asked accountant Neil Beverton what had gone wrong.

BEVERTON: Because she’d used up her reserves in paying the original liability, didn’t actually have the money to pay at that time but was waiting for her February widow’s pension to come through, so she could actually pay this.

LEWIS: And both of these clients, they both admit they owe this tax …

BEVERTON: *(over)* They do.

LEWIS: … and both of them wanted a bit more time to pay it.

BEVERTON: Correct.

LEWIS: Is there any procedure in the letters to contact the Revenue and say look, hang on, I can't pay you today, but I'll pay you in a month?

BEVERTON: The letters do refer to a telephone number, which is a call centre, to phone up. It takes approximately twenty minutes to get through on that number. And they will then make arrangements to collect by way of debit card; or if you're unable to pay, please explain. But nowhere in the letter does it give any indication that they actually can talk to somebody, explain the circumstances, and get more time to actually pay this liability.

LEWIS: I'm sure some people though Neil listening to this will be thinking well I always pay my tax on time. It's difficult, but I do it. If this works - although the letters are unpleasant, if it brings the money in, isn't that to everyone's advantage?

BEVERTON: It is to everyone's advantage if it is consistently applied to everybody who owes tax. What I would query is whether these type of letters are being targeted to specific profiles of taxpayers who perhaps have relatively small amounts of money owing. If the ladies involved had perhaps owed £2,000 or £3,000, would the Revenue's approach have been different? I suspect it would have been.

LEWIS: So you're saying the harshest treatment is reserved for the smallest debts? Is that right?

BEVERTON: It would appear the harshest letters are sent to the people with relatively small amounts of money owing on the basis that that is a more efficient way of the Revenue collecting the money.

LEWIS: Do you think there should be more clarity about making an offer to pay and paying by instalments perhaps?

BEVERTON: I certainly think it would be better for the taxpayer to have a dedicated line which they could telephone to actually explain the circumstances and get some indication as to whether they would be able to pay or spread the payment over a period of time. Certainly the Revenue are perfectly entitled to claim interest on it where people delay payment beyond the due date. I don't think any taxpayer would mind this. But what they do object to is receiving these type of letters which if these letters were sent out by perhaps a credit card company or a bank, there would be complaints, they would be referred to the Ombudsman, etcetera. But the Revenue themselves seem to be able to come up with these letters which word things in a certain way to be threatening and aggressive, but they're not accountable for who they send them to.

LEWIS: Neil Beverton. Well no-one from the Revenue would come along on this sunny day to be interviewed. Nor is the Revenue apologising. Instead we got a lengthy statement. Part of it reads:

READING: EXTRACT OF HMRC LETTER OF RESPONSE: We have a responsibility to the majority of taxpayers who pay their taxes in full and on time to take firm but measured action against those that don't. The letters are firm but fair and informative, designed to get the debtor to pay the tax due or contact us.

LEWIS: Well that was the Revenue statement. With me is Una Farrell from the Consumer Credit Counselling Service, a charity that gives free help with debts. Una Farrell, how did you react to these letters?

FARRELL: I think they're very odd. HMRC would only send bailiffs as a last resort, but this letter implies the opposite. I mean these have been for amounts of £600, £700, and I've seen a letter for £100, so I think it's very strange.

LEWIS: And does the Revenue have the power to send people round to list and seize your goods?

FARRELL: It does. It can get a magistrate’s warrant and break in, but in this case it would probably just be a county court bailiff, so it would be the standard bailiff’s procedure.

LEWIS: Yes, I mean it’s what they call their “field agents”, I think.

FARRELL: Yeah.

LEWIS: And when they call round, do you have to let them in?

FARRELL: You don’t and you have to really understand how to deal with this. Close your windows, tell your children not to let anyone into the house because once they have gained peaceable entry, they can then break in afterwards and obtain your goods.

LEWIS: So you have to sort of invite them over the threshold? It’s like vampires really: you have to keep them out.

FARRELL: Absolutely.

LEWIS: And the Revenue did tell us, of course (and I mentioned this to Neil Beverton) that these techniques actually work. They are bringing in more tax and some people might think it’s a good thing if they’re paying their tax in full and on time.

FARRELL: Well of course people should pay the tax they owe. I mean I wouldn’t disagree with that. But I would be concerned that a letter like this might force someone to pay what they owe using credit or just go without the essentials they need.

LEWIS: Yes because you can pay these debts by credit card using the number available, can’t you?

FARRELL: Yeah.

LEWIS: And what should people do who are in debt and need help?

FARRELL: Well first of all seek help. I mean I would certainly phone HMRC, but before that I would contact a debt charity such as Consumer Credit Counselling Service or go to your local Citizens Advice Bureau who can help you draw up a budget, which will help you negotiate with HMRC, so you can show them what you can repay each month and then maybe set up a repayment plan with them.

LEWIS: And this help from you - and I think there’s National Debtline as well, which offers free advice …

FARRELL: Yeah, absolutely.

LEWIS: … and you’re charities, you’re free.

FARRELL: Yeah.

LEWIS: How do people avoid companies that charge them for the service?

FARRELL: Just don’t go to them. I mean always …

LEWIS: Just go to your service. When you look them up on Google, be careful you’ve got the right one.

FARRELL: I mean that’s a huge issue and some organisations make themselves appear to be charitable and make it seem as if their services are free and they’re not. So go to either Citizens Advice, Consumer Credit Counselling Service or National Debtline.

LEWIS: Una Farrell, thanks very much for talking to us.

FARRELL: Thank you.

LEWIS: And you can let us know your thoughts on that story on Have Your Say at our website: bbc.co.uk/moneybox. Many of you are. Some of you are even telling us you got those letters when you didn't owe anything. I'm sure we'll be following that one up.

Gold hit a record high of 1,512 US dollars a troy ounce this week, rising 1.5% in just seven days. Its poorer but more useful cousin, silver, hit its highest price for 31 years, rising 9% this week to reach more than 46 dollars a troy ounce. The price is being driven up by fear of inflation, the huge debts of the Eurozone countries, the realisation that the debts of even the US government might not be sustainable, and of course unrest in the oil rich countries of North Africa and the Middle East. So is gold a good thing to have, or is now the time for it be to sold? Let's go first to Merryn Somerset Webb, who's Editor in Chief of Moneyweek magazine, who wrote about gold in this morning's Financial Times. Merryn Somerset Webb, I think you're in the gold corner on this debate. Why? Why do you believe in it?

SOMERSET WEBB: Well I just see gold as the only real insurance that investors have against all the terrible things that happen in the financial system. You know that every paper currency slowly depreciates over time - sometimes slowly, sometimes very fast, often slowly and then very fast - and both the dollar and the pound have lost something like 90% of their value over the last 50 years alone.

LEWIS: Sure, but gold very often falls just as dramatically as it's been rising, doesn't it?

SOMERSET WEBB: It doesn't fall that dramatically actually. I mean you just said in a rather sort of awed tone that it had risen 1.5% in a week. Well you know stock markets go up by 1%, 2%, 3% all the time. Gold is volatile, but it's not in many ways as volatile as an awful lot of other investments. Now it has terrible periods. You know before the most recent run-up, which started about a decade ago, gold had an appalling 20 years, absolutely shocking. Anyone who was holding gold would have thought they were crazy to do so. On the other hand, if they'd held it for 100 years or 1,000 years, they'd have been extremely pleased with themselves. It's a very long-term insurance policy against the misbehaviours of central banks, which are many and manifold.

LEWIS: Indeed. I often say we should invest with a 100 year time horizon and we would all make money I think then. David Kuo is also with me. He's Director of the Motley Fool financial website. David, you don't like gold.

KUO: I don't like gold at all, Paul. And I think fear and greed are probably the two worst reasons for making any kind of investment - I mean fear that there is going to be political problems, fear that the dollar is going to be devalued, fear that inflation is going to take over and kill all our savings. And I think you know fear is the wrong reason to actually invest and greed is also wrong. People are greedy because they think oh I could have bought gold at 200 dollars an ounce and now it's 1500. I could have made so much money.

LEWIS: But surely fear and greed drive all markets? That's what we're told all the time. It's fear and greed that make people buy and sell.

KUO: No, there is also one other important aspect and that is valuation. And I think one of the big problems for any gold investor today is how do I value gold? How do I know that gold is worth 1500 dollars an ounce? And I think the answer is it's almost impossible.

LEWIS: Merryn, how do you value gold? It's not much use for anything, is it?

SOMERSET WEBB: It is a long-term store of value, which makes it possibly the most useful thing you're going to have.

LEWIS: Well only because we all believe in it.

SOMERSET WEBB: We all believe in it, absolutely, but we don't believe in anything else, do we?

LEWIS: Right, but there are other metals …

SOMERSET WEBB: *(over)* I mean of course it's very hard to value because, unlike the average investment, it doesn't produce a stream of income, so you can't look at that stream of income and you know discount the value back and say this thing is worth this. What you can do with gold is look at it and say what is everything else worth? It's the inverse of that.

LEWIS: Sure. I think from what you've written, you actually have some gold as an investment. What do you do with it? Do you just sit and look at it or do you actually sell bits of it to make money?

SOMERSET WEBB: Oh it's terribly satisfying to hold.

LEWIS: I see. So holding gold is a literal thing for you, not just something that's in the bank. *(Somerset Webb laughs)* But how do you react to David's view that this is just all about fear and that's the worst way to invest in anything?

SOMERSET WEBB: Well that's why I refer to gold as an insurance. I mean if we didn't fear things, we wouldn't insure anything. I bet David insures his house. He should be insuring his currency holdings as well. We're all exposed to fiat currencies, we're all exposed to paper money, we're all exposed to the way central banks behave, and we need to insure ourselves. Of course you shouldn't have all your money in gold, of course you shouldn't, but you should have a certain amount in gold to insure yourself against the fact that the currencies around you are being regularly debased.

LEWIS: But of course at some point you have to realise it, unless you just do enjoy looking at it until the day you die. And how do you know when because people are saying this is a bubble, it's just too high?

SOMERSET WEBB: Is it a bubble? Do you have any gold?

LEWIS: No, I just have …

SOMERSET WEBB: Then it's not a bubble.

LEWIS: Oh I see, only when I buy things it's a bubble. David, do you …

SOMERSET WEBB: When the man in the street actually holds it. There's a lot of talk in the investment community about gold, but you know even in the investment community only about 5% of people hold this in their portfolios. There is no way you can call gold a bubble at this point. You'll know when it's a bubble.

LEWIS: I'm very proud to be called man in the street. David Kuo, is it a bubble?

KUO: Well of course it's a bubble. You know when it looks like a bubble …

LEWIS: Well you say of course, but it may not be.

SOMERSET WEBB: How can it look like a bubble? It's not!

KUO: But Merryn, if it looks like a bubble and it works like a bubble and everybody is saying it's a bubble, then it is a bubble. I think one general rule of thumb that people use about valuing gold is to say that in the days of Henry VIII an ounce of gold would buy a man a suit of clothing. Today, at 1500 dollars an ounce, you would have to pay in the region in sterling terms about £1,000 for a suit. Now I can assure you that I do not have a £1,000 suit in my wardrobe. Mine is a lot less than that. So therefore, Merryn, it's a bubble.

SOMERSET WEBB: Well I tell you what. If you'd been holding gold for the last decade, you'd be able to have quite a few £1,000 suits.

LEWIS: Okay, I think we'd better leave it there, Merryn Somerset Webb of Money Week and David Kuo of the Motley Fool. And in case you're wondering, a troy ounce is about 31.1 grams - slightly more than the ounce we use to weigh carrots.

Now Britain's banks could face a bill of more than £4 billion after the High Court ruled this week they had to obey instructions from their regulator, the Financial Services Authority. It told them last year they had to go back to 2005 and check their sales of Payment Protection Insurance. It's supposed to protect your repayments on a loan or credit card if you fall ill or lose your job, but it often wasn't needed or didn't work as promised. Lindsay Wade tweeted me about her experience.

WADE: I paid it for the best part of 10 years and then last summer I was unexpectedly made redundant from my job. So I contacted the credit card company and it was explained to me that the only payments that would be made would be the interest of the monthly interest payments and it would only be for a year. I realised then that in fact my redundancy pay would actually cover that and had that been explained to me, I would not have bothered with it; and that it would have also been useless for me if I'd been taken ill because my company would have paid me 6 months full pay, 6 months half pay. So that covers a year that they would have paid the interest payments only, so in fact it was actually worthless to have this insurance.

LEWIS: Well one common experience really with this product. Such mis-selling was rife. More than a million people have complained about it and the Financial Ombudsman Service says it upholds three out of four mis-selling claims it considers. 200,000 are waiting to be dealt with or have been in the last year. Despite this week's ruling, the banks say they'll continue to put individual claims into the pending tray while they decide whether to appeal. Now this is where it gets complicated. The judge, Mr Justice Ouseley, who threw out their case, didn't give the British Bankers' Association, which brought it, the right to appeal. Now the British Bankers' Association can ask the judge for permission to appeal, but so far won't say if it'll do that or not. Even if it does, the judge can say no. In that case, the association can go direct to the Court of Appeal, not to appeal but to ask for permission to appeal, and that whole process of deciding even if an appeal will be heard could last until June 14th. So can the banks reasonably refuse to deal with cases for nearly 2 months after losing in the court? David Wolfe is a barrister who specialises in these cases called Judicial Review.

WOLFE: They could ask the Court of Appeal to make an order which suspended things, and the court could make an order to have that effect. But until they ask and the court makes the order, it should carry on.

LEWIS: So until they get permission to appeal and an order, they should be carrying on dealing with things as the regulator has told them to?

WOLFE: Yes indeed.

LEWIS: It's all very well saying they should do that. How can individuals or indeed the regulator make them obey the court?

WOLFE: Well in theory the regulator could take action to compel them to do it. I imagine the FSA will be thinking about whether it wants to put pressure in that way.

LEWIS: Is there anything an individual can do who's got a complaint, who's made the complaint properly, and the banks have written back and say this is being held pending the Judicial Review? What can that individual do to force the bank's hand?

WOLFE: Well I suppose the individual could make a fresh complaint - complain about the way the first complaint was being handled. That would no doubt go into the bank's complaints process and be dealt with in the normal way on the normal timescales. I imagine that would be unlikely to make a huge difference.

LEWIS: But an individual couldn't go to court to try and force the banks to act differently?

WOLFE: Not easily, and I suspect that the court would be reluctant to entertain a claim like that. I think what's more likely to happen would be that the Court of Appeal, if it was minded to give permission for an appeal at all, would decide to deal with the appeal on a fairly fast track basis precisely to avoid these kind of problems.

LEWIS: Well that was David Wolfe, a barrister. The British Bankers' Association took the court case, as I said, on behalf of the high street banks. We wanted to ask it about those legal points, but it simply referred us to a statement on its website:

READING: STATEMENT ON BRITISH BANKERS' ASSOCIATION: Until a decision is taken on an appeal, any complaints that are directly affected by the Judicial Review will be placed on hold.

LEWIS: Well with me is banking analyst Ralph Silva, Director of SRN. Ralph Silva, does refusing to accept the court's ruling damage the bank's reputation?

SILVA: It certainly does and that's the reason why they really haven't come out and said they're going to appeal yet - because they're trying to assert the relationship between the brand and the customer, and right now, let's face it, banks aren't our favourite companies.

LEWIS: No. And if there is no appeal - or indeed if eventually they lose an appeal - what will they have to do? What does the High Court ruling mean?

SILVA: Well it basically says they have to look at every time they sold a PPI and see if it was actually sold properly, and they have to ask the customer "Do you feel it was sold properly?" Now let's be clear here. The majority of PPIs sold were actually sold properly. Although the benefits weren't as great as they had said, they were still sold properly. So there's about half of the people out there that really have to take a very good look at what they bought.

LEWIS: You say take a good look at what you bought. What went wrong, in your view? What should people look at as warning signs?

SILVA: Well from a bank's perspective, the whole process failed. They weren't asking the right questions. But from our perspective, you have to realise that it's not just the banks that were selling this. I last year purchased a motorbike from a very large provider and I actually paid off in instalments at 0%, but they made me take on PPI. By forcing me to do so and being self-employed, I'd never get payoff on that …

LEWIS: That was a mis-sell?

SILVA: That was a mis-sell. So you also have to look not just at the banks, but if you're paying in instalments on anything, there is the potential of having an improperly sold PPI on that.

LEWIS: And of course we should stress you can still complain to the bank and then to the Financial Ombudsman despite what's going on with the court. Can I ask you this though? This is going to be very expensive if they have to go back. It's certainly over a million people who might get compensation. Huge amounts of administrative work back to 2005. Probably a silly question, but who's going to pay for it?

SILVA: We are. We're going to start to see … Actually we have already started to see higher interest rates on all the things that we're doing because this costs them a lot of money. Remember they were making about £4 billion a year on the sale of this product, and from now on not that many people are going to take it. And, secondly, it reduced the risks of lending people money because at least half the people would be able to use the insurance to pay it off. In other words, we have to expect an increase in the amount we're going to pay for our loans going forward.

LEWIS: Right. And four and a half billion is I think the cost that was put into the court - about 3.2 billion for past sales, 1.25 for future sales. This is a huge amount, and then hundreds of millions in administration. You say they'll recoup this by putting up prices. That's going to mean quite a big price. Do you think we could also see other things more expensive like maybe paying for our bank accounts?

SILVA: We will see everything more expensive. Banking in general's going to get more expensive, not just because of the PPI issue but because of a series of other regulations. We have to realise that banks are going to be slightly less profitable, about 10% to 12% less profitable, and we as consumers are going to have to make up that difference.

LEWIS: Ralph Silva, thanks for that. I say thanks. It's rather bad news, but thank you very much for being here to give it to us.

But now after that bad news, it's time to party. *(Music)* Prince there with 1999, cueing in a trip to our archives. In June 1999, one of my very first times presenting Money Box, we gave this advice to listener David Mitten. And now it's time for our cash point. *(Fx: money)*

ARCHIVE: PAUL LEWIS IN JUNE 1999 BROADCAST OF MONEY BOX: This is the time when we answer listeners money questions, and this week David from Gloucester wants to know what to do about his pension when he takes early retirement. David is 57 and he faces a choice: a bigger pension and no lump sum; or a lump sum of nearly £100,000 but a lower pension for life. Tim Johnson, the independent financial adviser from BMS Millsmith, is still with me. Tim, David's pension would be cut by around £8,000 if he took the lump sum. Is it worth it?

JOHNSON: If you work it out, he's actually losing a pension equivalent to 8.5% before tax if he invested the money. Now I don't know anywhere where without any risk at all, he could get 8.5% at the moment. The one thing that he needs to consider is the fact that that pension goes up every year, so it's not just £8,250 this year; it's future increases. It actually comes out to about 11.5% is what he needs to make before tax. In David's case, I'd take the pension.

LEWIS: So 12 years on, how did that advice work out? A little while ago, we brought the two of them together.

MITTEN: Well since 1999, I've had the increases and I'm you know more than happy with the results. In fact my pension, which I don't think would be unusual, has gone up 39% in that period, which I think would be the normal increase. But of course it was on the full figure.

LEWIS: Yes, so it's gone up 39%. Tim, could you possibly have got a 39% growth with an investment since June 1999?

JOHNSON: You could have done, but I think the key thing is it's the yield that's gone up that much. So the money that David chose not to take at the time, we worked out couldn't have produced even the starting pension, let alone one that's gone up by so much over the last 12 years.

LEWIS: So your advice was good. And David, you're pretty happy, I guess?

MITTEN: Well very happy, and you know it turned out to be the right thing. With people facing questions on what they should do about pensions, it reminded me just to go back and look and see what happened you know all that time ago.

LEWIS: And Tim Johnson, would your advice be the same today?

JOHNSON: I think it would be the same. I think, if anything, yields have fallen on money that you invest and the rate at which you convert pension in a guaranteed company pension scheme into cash, would you believe, Paul, if anything has got worse?

LEWIS: Well it certainly worked out in David's case.

MITTEN: Yes. Can I just …

LEWIS: David, yes?

MITTEN: You know it does prove to be much better than having the money on the stock market or invested somewhere and that in itself makes the decision that much better as well.

LEWIS: So in summary, David, you're very pleased you wrote to Money Box, listened to Money Box, and took our advice?

MITTEN: Absolutely.

LEWIS: David Mitten, who wrote to us to tell us how well things had worked out. And financial adviser Tim Johnson who's now Managing Director of Gallagher Risk and Reward. And if you've had good or bad advice from Money Box, why not let us know like David did.

Yorkshire, the second largest building society, has agreed a takeover of Norwich and Peterborough. Ben Carter's got more on this.

CARTER: Well that's right, Paul. This deal is being described as a merger and is subject to a vote by Norwich and Peterborough savers and borrowers. But if it goes through, it's going to create a combined society with 3 million members, 224 branches, and 34 billion pounds of assets.

LEWIS: Thanks very much for that, Ben. That's just about it for today. You can find out more from our website: bbc.co.uk/moneybox. All sorts of things there - my newsletter, listen again, contact us, and of course have your say on how the Revenue collects tax. A number of you already are. We've had many emails. 'I've had a letter for a supposed debt of unpaid class 2', says Andy. 'I haven't been self-employed for 3 years.' He's very cross about that. Vincent Duggleby's back on Wednesday with Money Box Live, this week taking your questions on the finances of weddings. Hmn, I wonder why. Next weekend there's a special Money Box looking at the death of pensions. You can read my money thoughts whenever I'm awake on my twitter, Paul Lewis Money. From producer Lesley McAlpine and me, Paul Lewis, have a good Easter.