MONEY BOX (9 May 2009)

PAUL LEWIS: Hello, in today's programme we hear of impartial money advisers in a high street bank who then go on to sell the bank's own products. Share prices rise strongly so has the economic crisis turned? I talk to the professionals, and Bob Howard's been talking to some individual investors.

BOB HOWARD: I'm in Bournemouth to hear whether amateur investors now think the tide has turned.

LEWIS: The employment minister explains his plans to stop restaurants using tips to pay waiters the minimum wage, and will Equitable Life customers ever get the compensation the Ombudsman and MPs say they should have?

But first, what would you expect if you heard this advert which has been running on commercial television recently?

AD: We now have money sense advisers in a thousand branches. They're not there to sell but to give you free impartial financial guidance. NatWest, helpful banking.

LEWIS: Well you might expect impartial financial guidance from a money sense adviser with no sales pressure, but the Advertising Standards Authority has confirmed to Money Box that it's investigating whether the promise made in the advert is being fulfilled, and this week a report was published which claimed that out of twenty visits to a money sense adviser, only four provided fully impartial advice. In the other sixteen cases the adviser either spoke exclusively about NatWest products or recommended them or passed the customer onto a NatWest sales adviser. That research was done on behalf of the consumer organisation, Which. Principal policy adviser, Dominic Lindley, told me what the research turned up.

DOMINIC LINDLEY: Well our Which investigation has revealed that the NatWest money sense service isn't always delivering the impartial advice it promises, that consumers are told that if they go into the NatWest branch and make an appointment with the money sense adviser, they will receive impartial guidance and sometimes they're actually on the end of a slick sales pitch rather than receiving the impartial advice they're promised.

LEWIS: In what way? I mean when you say a slick sales pitch, how does that work?

LINDLEY: Instead of impartial advice advising people to shop around and find the best deal, they go on to talk about specific NatWest products which they could sell to the consumer today.

LEWIS: Isn't that inevitable though when a bank is offering advice, isn't it inevitable that it promotes its own products? It's not legally allowed to do anything else is it?

LINDLEY: The NatWest adverts promise that the money sense will be a free impartial guidance service so if it's promising a free impartial guidance and then is not delivering it, then it is breaching the trust of consumers.

LEWIS: And how does the guidance transform into a sales pitch?

LINDLEY: They might say that they've got a particular product, they might claim they have the best rate or they might say have you thought about one of our bonds or have you thought about our mortgage, and then try and persuade a consumer to take up that particular product.

LEWIS: And when they say they've got the best rate, is that true?

LINDLEY: In this case it wasn't. They claimed that their ISA Plus had the best rate but actually when we conducted the research, the best rate was available from Barclays.

LEWIS: So they were actually misleading customers?

LINDLEY: Yes we found they were misleading customers in some cases.

LEWIS: When NatWest says to us, as they have, these sessions are impartial and we have received excellent customer feedback, is that not true?

LINDLEY: That's not what the results of our undercover research says when we went into twenty NatWest branches and recorded the conversations our researchers had with the money sense advisers. So what NatWest says does not stack up with what our research found, and we think they should be monitoring the actual results and the actual service being offered, and implementing training where required.

LEWIS: Technically the people who offer this guidance, are they themselves financial advisers, are they qualified to give financial advice?

LINDLEY: In some cases it seems to me that some of the people offering this money sense service were mainly kind of NatWest customer assistants who also claim to be money sense advisers, and in some cases they just talked about NatWest products.

LEWIS: But what NatWest also says to us is that if during a session the customer asks for specific product information, then they hand them over to what they call an appropriate colleague, presumably someone who is qualified to sell them things?

LINDLEY: In six of the cases that didn't happen and they weren't handed over, and also our researchers weren't asking for a specific product information about what NatWest could offer. They were asking for general guidance about how to find the best ISA rate and questions about whether they could transfer money from stocks and shares to a cash ISA. They didn't go in and say tell us about the NatWest cash ISA rate. They asked for information about how to find the best deal on an ISA.

LEWIS: But they were directed to a NatWest product?

LINDLEY: Yeah, in many cases they were directed towards a NatWest product.

LEWIS: Can it though ever be possible for a bank to offer impartial advice because it will always want to sell its products, won't it?

LINDLEY: Well it depends on how the customer service people and the people offering this money sense service are being paid, and we have asked NatWest that question and we're waiting for a response.

LEWIS: You mean they might be on commission?

LINDLEY: Well we don't know whether they might be on commission as part of one of their other roles in the bank so they might be a money sense adviser for part of the time and then a customer service adviser for the rest of the time, and I think it just gets confusing. If you're promising consumers an impartial service, then that's what you should be delivering, not a sales pitch for your own products.

LEWIS: Dominic Lindley of Which. We asked NatWest several times for an interview. It said no. In a statement it told us: "These sessions are impartial and we have received excellent customer feedback. We regularly conduct our own internal reviews of the money sense service and this report certainly does not reflect our experience." Well you can let us know your experience of financial advice from your bank, good or bad, on our website bbc.co.uk/moneybox.

Share prices have had one of their best months for six years. The price of shares in our hundred biggest companies has risen 27% in little more than two months and it's now slightly above the level at which it started 2009. Although most people don't actively invest in shares, millions of us are paying into a pension or other shares, ISA or money in a unit trust, all of which are affected by the value of shares in our top companies. So is this the start of a sustained rise in share prices, what the City calls a bull market, when our pensions and investments become more valuable? Or is it just a short interruption of share prices continuing on their downward path, a bear market in the City's animal alphabet? Well there are different views in the newspapers this morning so let's go first to independent financial consultant and economist, Michael Hughes. Michael Hughes, is this the start of a long rise in the price of shares or equities as you professionals often call them?

MICHAEL HUGHES: I don't believe so. I think there are still some problems around and although the news appears less negative, I do think that we're going to have difficult times in 2010, 2011. Having said that, my long term estimate of the fair value for the FTSE is around 5000 so that's a little higher than the 4500 we are now, so there is a bit of headroom but I don't actually think we can go above that figure.

LEWIS: So you're saying if all, if the companies were valued fairly their shares would be worth an index of around 5000 and it was what, 4462 on Friday? So we're almost there.

HUGHES: We're almost there but to go above that, I think you really have to be convinced that inflation risks aren't rising. In the medium term I am concerned about inflation.

LEWIS: We'll come back to inflation if we may because I want to bring in Tom Stephenson who's a market commentator. He's from the investment company, Fidelity. Tom, what's your view of that?

TOM STEPHENSON: Well I would agree with Michael that there are certainly headwinds in the economy. Unemployment is rising, the financial system has obviously been weakened and this deleveraging process of people reducing their debts is still going on.

LEWIS: By headwinds, you mean things stopping us moving forward and deleveraging is a technical term meaning getting rid of debt?

STEPHENSON: Getting rid of debts, that's right, so I think for that reason our optimism – and we are optimistic – is tempered by an element of caution.

LEWIS: What about this inflation risk though? Michael Hughes, just explain first where it's coming from. Is this because all this money is being printed or at least created in the Bank of England computers?

HUGHES: Potentially it is. And it also may be that as companies start to improve they want to raise their prices to make sure that they don't have to go to the banks for more money but I think given the amounts of debts that the government has got, which are higher than the savings in the economy so we really need to attract overseas savers to the UK, my fear is that if we don't, then sterling will go down and inflation will go up.

LEWIS: Yes. So there's an inflation risk and as you say, we've got to, the government has to borrow hundreds of billions of pounds doesn't it? I mean the deficit this year, 170 billion, I think it's going to borrow over 200 billion. People often ask me where is this money coming from, Michael. Is this coming from abroad, investors abroad?

HUGHES: It has, well some of it has to because we don't have enough savings in the UK.

LEWIS: Do they have enough?

HUGHES: Well globally they do but of course if you're an overseas saver, you may actually want interest rates in the UK or bond yields to be higher than those you're getting at home because you are taking a higher risk so my fear is that we will see bond yields rise, long term interest rates rise, and that's one of the headwinds which I think it's very hard for the equity market to ignore.

LEWIS: And Tom Stephenson, the price of shares is supposed at any rate to reflect the future profits of companies, isn't it? How confident are you that in that sort of higher inflation, big government debt situation, companies can increase their profits and therefore be worth more?

STEPHENSON: Well I think the key, the key point here is that yes there is that, those potential headwinds, there is that bad news but the stock market is very good at, at valuing what's going to happen in the future and anticipating recovery, and I think if, if you look at what's happened over the last two years share prices have fallen very far. From the top of the market in 2007, to the bottom of the market in March was a 48% fall. That's a very, that's a very substantial fall and I think at the prices that shares have reached that the bad news if you like has been priced into the market.

LEWIS: Yes but I mean if we go back further to May 1997, twelve years ago, share prices are now back where they were. That's not what the share market is supposed to do is it?

STEPHENSON: Yes, and do you know what? I would actually say that that is, that is a positive. We've been through what might be termed a lost decade for shares, that the, that the performance in shares over the last ten years has been very poor and if you look at the historical record, when we have been through this kind of lost decade the future performance of the market has tended to be very good.

LEWIS: Michael Hughes, you used to run a multi-billion pound investment fund. What would you be buying and selling now?

HUGHES: Well what I like at the moment is the income you're getting on shares. The yield is about 4.8%.

LEWIS: That's the dividend?

HUGHES: That's the dividend income, and although people obviously are concerned that dividends may still be cut further, I'd suggest you look at some of the investment trusts that have large dividend reserves so that they're able to increase the dividends on their companies over the next couple of years.

LEWIS: In a word, Michael, where will the FTSE 100 index be a year from now?

HUGHES: A year from now I think it will be almost where it is now, somewhere between four and a five and five thousand.

LEWIS: Where it is now. Tom Stephenson, in a word?

STEPHENSON: In a word, I don't really mind where it's going to be in a year's time because as a long term investor –

LEWIS: That's a real cop-out isn't it?

STEPHENSON: Well it's not a cop-out really because an investor should be looking at the medium to long term, and I would imagine within five to ten years it would be considerably higher than today.

LEWIS: Right, Tom Stephenson and Michael Hughes, thanks. Now that's the view of two professionals. What about those people who invest their own money directly in the markets? They're represented by the UK Shareholders Association. This week its annual conference called Investfest is in Bournemouth and Money Box's Bob Howard as we heard is by the sea with them. Bob, what's the mood down there?

HOWARD: Well perhaps not surprisingly, the conference has been really focusing on the banking sector and there is a, some optimism I would say but also a good degree of caution and we're going to hear about that in a moment, and yesterday interesting what we were hearing about looking at the longer term. I attended a session where investors were urged not to be swayed by these recent fluctuations in the stock market but for many investors here especially that's easier said than done. Peter Parry who's been an amateur investor since he was seventeen, he's with me. Peter, you've changed your portfolio to a higher proportion of cash. Would you now put more money into the stock market?

PETER PARRY: I think I'd be very wary, Bob. The market has had a pretty good run recently. It's up about 30% in the last six weeks or so, six to eight weeks. I think we're going to see a lot more volatility over the coming weeks and months, and I think there will be rather better buying opportunities than this. I think there are individual stocks that represent good value for money, and certainly they will be worth looking at. You will never call the bottom you know perfectly so now might be a good time to buy some of those but if I was being asked whether I should buy a tracker, I think I'd be very very careful at these levels. I feel the market is perhaps being you know a bit irrational in terms of the way it's risen recently but then as Keane said, the market can stay irrational for a lot longer than you can stay solvent.

HOWARD: And bank stocks specifically?

PARRY: I think I'd be very wary of bank stocks. We had a very interesting presentation from one of the strategists at HSBC Bank earlier in this conference and he pointed out that in terms of the write-down the banks have actually revealed and taken so far, we are looking at about 1.8 trillion dollars. He is saying that in his estimation there is a further 2.2 trillion – let me just repeat that, 2.2 thousand billion dollars – to come out further.

HOWARD: Now also with me is Peter Raynes who's from the UK Shareholders Association which has organised this conference. Peter, sum up the mood here.

PETER RAYNES: Well I would say people are less despondent and the recent rise in the stock market has certainly made people less poor, and possibly a little bit more interested about looking at their portfolios and trying to find the shares they'll want to buy. But I think as Peter said, people aren't going to be rushing home and buying them on Monday morning. It's really identifying those good companies that you want to buy for the future. I would say that for private investors, the carnage on the market is not always a bad thing. We tend to be longer term investors, and so we would like to buy when we've got this sort of a real depressed state and then hold for many years and that's exactly what some of our members do.

HOWARD: And finally just with banks, anything you've heard at the conference that has swayed you one way or the other?

RAYNES: Well I think it's very good to hear from senior people in the banking industry how open and honest they're being about the troubles they're having, and that I think is a real cause for optimism.

HOWARD: Peter Parry, Peter Raynes, thanks very much indeed.

LEWIS: And thanks to you, Bob, live from Investfest in Bournemouth and saving and investing are the topics for Money Box Live with Vincent Duggleby here on Wednesday afternoon.

From October the government says it will stop restaurants and bars from taking tips and service charges left by customers, and using them to pay their staff the minimum wage. In future all staff will have to be paid at least the minimum wage under their contract. Gerry Price runs his own pub/restaurant in Surrey. He already pays staff more than the minimum wage but he told me his concerns about the new rules.

GERRY PRICE: For larger organisations, it's going to put their costs up at a time when we're all struggling to keep our costs down but it's not a great deal of time to get it sorted out. If they're going to do it maybe over a three year time span or whatever would have also been better. The only good thing I suppose is that it does clarify the system.

LEWIS: That was Gerry Price from Surrey, and employment relations minister Pat McFadden told me why the present system does not work.

PAT McFADDEN: At the moment the situation's not very clear. If you leave your tip in cash at the end of the meal, that tends not to be used to make up basic pay but sometimes if you add it through your credit card and it's processed through the restaurant's books, it can be used to make up the minimum wage. So as well as fairness, the new rule will bring clarity for both workers and employers alike. It will mean that tips and service charges and gratuities, whether paid by cash or through the credit card, can't be used to make up the minimum wage.

LEWIS: And will it also include service charges that are actually stated on the menu? Sometimes they say 12 ½ % will be added to your bill. Is that going to be part of this as well?

McFADDEN: Yes it will. It will mean all these things can't be used to make up minimum wage.

LEWIS: It's going to be very difficult isn't it to monitor this and to make sure that all that money left through service charges and money added onto the bill at the credit card stage, that all of that is genuinely kept separate and then given to the staff separately from their wages? Supposing you're getting seven pounds an hour, whether that extra £1.27 really does represent all the tips that have been put in?

McFADDEN: That's a slightly different question. The legal change that we are putting through is to make sure that tips and gratuities and service charges can't be used to make up the minimum wage. What we're not trying to legislate on is the thousands of distribution systems within restaurants, about what exactly happens to tips. On that question which is an important part of this, we want to work with the industry to come up with a code of practice on transparency on this because I think customers expect their money to go to staff in addition to the minimum wage.

LEWIS: So it would be possible for a restaurant to take all the tip money, pay the staff the minimum wage and say well all the service was provided by the manager so – or the proprietor – so the proprietor's getting all the tips?

McFADDEN: Well if you have a code of practice and that transpired, I don't think that would be very popular with the customers.

LEWIS: No but it would be possible legally under the change you're making?

McFADDEN: No it would be possible now. The legal change we're making wouldn't create that possibility. It would be possible –

LEWIS: No, but it wouldn't stop it happening?

McFADDEN: It would be possible now to do that. The legal change that we're making is to make sure that these tips are not used to make up the minimum wage.

LEWIS: It does seem to me that a proprietor could perfectly properly carry on paying the minimum wage, say I provide all the service in this restaurant and keep all the tips, so although you haven't created that situation, you haven't stopped that abuse have you?

McFADDEN: If that was happening, I don't think they'd hang on to their staff for very long. I used to do restaurant work myself and if the employer had basically taken the tips that were intended for the staff, I wouldn't have stayed there working very long.

LEWIS: We heard from Gerry Price saying this is just the wrong time to do it. Many restaurants are closing with the recession and how many jobs will it cost?

McFADDEN: Well we believe that some of the figures quoted on this are over-estimated.

LEWIS: This is the forty-five thousand?

McFADDEN: Yes because for example that's based on a survey of some forty restaurants.

LEWIS: So will it cost no jobs or a thousand jobs or ten thousand jobs?

McFADDEN: I don't think we can say but I think that the figures quoted around on this are a big overestimate.

LEWIS: Employment relations minister Pat McFadden, and indeed ex-waiter. We tried to get interviews with several well-known restaurant chains and their trade body, the British Hospitality

Association. No one would talk to us. They won't be getting a tip. If you want to make sure the waiting staff get your tip, leave it in cash rather than adding to your payment or paying the optional inclusive charge. Those are the ones the company can keep and will be able to keep after October 1st.

The parliamentary Ombudsman has taken the unusual step of issuing a further report criticising the government for refusing to pay the full compensation she recommended nearly a year ago. Anne Abrahams' report into the near collapse of the private pension provider, Equitable Life, was published last July. She recommended then that customers should be compensated, after identifying mal-administration by various government departments over several years, but as we reported earlier this year, the government decided not to compensate everyone affected. Instead it would make payments mainly to those in hardship. A judge, Sir John Chadwick, was appointed to work out the details but the chairman of Equitable Life, Vanni Treves, says that's not enough.

VANNI TREVES: There's been a four year investigation by the Ombudsman and her conclusions were that over a decade there were ten clear examples of mal-administration leading to injustice. The government hasn't accepted those conclusions. It has tried as hard as it possibly could in a way that I regard as grubby and shameful to avoid coming up with fair conclusions and to accept her findings. And what I call on the government to do and I call on parliamentarians to do is to force the government to accept her findings, and to find a practical method, in an open and transparent way, of calculating relative loss.

LEWIS: Isn't the problem though that this was caused partly by decisions certainly that Equitable Life took, it was caused partly by falls in markets and it was caused by mal-administration by previous governments generally. You can't just redress people and put them back in the position they were because it's got this complicated set of causes which the judge is now trying to sort out.

TREVES: Certainly the society was partially responsible for what happened. The society has met its debt in full. We have paid out hundreds of millions of pounds to hundreds of thousands of policy holders. The fall in the markets is right. What the Ombudsman said was that the mal-administration should result in relative loss, relative loss, being compensated for by the government.

LEWIS: And isn't that a complicated thing to work out though?

TREVES: Not at all. We have made all our records available and it should certainly be possible with our help for a fair and reasonable formula to be put in place that amounts to much more than rough justice. It may not be precisely accurate but it will see things roughly right for the very large numbers of people who have suffered.

LEWIS: And specifically, if parliamentarians do take your advice and the government is defeated or is forced to change its mind, how long would it take to work out what you would consider and perhaps the Ombudsman would consider to be a fair redress for the people who've lost money?

TREVES: About two years. We think that if the proper team was put together, then with our help it would take about two years before a fair system was put in place and the cheques started being issued.

LEWIS: And who would pay for that process?

TREVES: When there's been failure of administration and injustice by government agencies, then the taxpayer has to pay the bill. There's nothing unusual about that. That's happened before, and whatever has to be paid – and we don't know how much it would be – would be a drop in the ocean compared to what the government has paid in the case of Northern Rock, Royal Bank of Scotland, Dunfermline Building Society. They should do it for us.

LEWIS: Equitable Life chairman, Vanni Treves. And my producer, Lesley McAlpine, is here with some news.

LESLEY McALPINE: Yes Paul. People who lost money after the collapse of the US bank Lehman Brothers were given new hope this week. Thousands of people were sold investments that promised their capital was safe, but in fact when Lehman Brothers went bust, so did the guarantee they'd get their money back. We revealed three months ago the material used to sell these so-called structured products didn't comply with the regulator's guidelines and this week the Financial Services Authority says it's investigating these products.

LEWIS: Thanks very much for that, Lesley. That's it for today. You can find out more from the BBC actionline 0800 044 044, and of course our website, bbc.co.uk/moneybox where you can do all sorts of exciting things: watch videos, sign up to my weekly newsletter, download a podcast, listen again and of course have your say on financial advice from banks as some of you are. Some of you quite like it actually. Vincent Duggleby is here on Wednesday with Money Box Live, this week taking your questions on saving and investing. There are personal finance stories on Working Lunch, BBC-2, weekday lunch times. I'm back with Money Box next weekend. Today the reporter in Bournemouth was Bob Howard, the producer Lesley McAlpine, and I, Paul Lewis.