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MONEY BOX

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LEWIS: Hello. In today's programme, the Government promises not one but two new sets of pension laws this year. It promises more choice, but will that mean increased complexity? If you want to transfer money abroad, peer-to-peer websites are much cheaper than the banks. How do they work and are they safe? We look at new consumer rights when we buy over the internet, the phone or on the doorstep. And we talk to the people in a church in Kent setting up the tables of the money lenders.

But first, the continuous revolution of the UK pension policy took another twist on Wednesday when Her Majesty promised not one, but two pension bills in her gracious speech.

THE QUEEN: Legislation will be brought forward to give those who have saved discretion over the use of their retirement funds. My government's pension reforms will also allow for innovation in the private pensions market to give greater control to the employees.

LEWIS: Well the Pensions Tax Bill will introduce the changes promised by the Chancellor in the Budget. That's the ones allowing people to take the whole pension pot out at any age after 55. But the second bill was the surprise: the Private Pensions Bill will introduce a new kind of work or company pension, fitting - maybe snugly – between a scheme that promises you a pension related to your pay, uprated with inflation, and a much riskier pension pot scheme which makes no promises at all and leaves the pension you'll get to market forces and your own choice now. In the middle will sit schemes where the promises are replaced by well by hopes or targets, and they may include schemes where the pension pot is run in a different collective way. Well with me is David Pitt-Watson, a fellow of London Business School, and he's behind the Royal Society of Arts' Tomorrow's Investor programme. He think these so-called collective defined contribution schemes are a good idea. David, we're in sort of Alphabetty world, aren't we? Explain what a collective defined contribution scheme is and why it's better.

PITT-WATSON: Yeah. And it's not just me I think, Paul, that supports this. This is something that the Labour Party, the Conservatives, the Liberals, the TUC, Which? the consumer organisation, the CBI, the NAPF, the Association of Member Nominated Trustees have all been asking for. And it allows people to save into one big pension pot and instead of having to manage their pension individually, you manage it together. Instead of having to buy an annuity, which is very, very expensive, you take your pension from that pension pot. So that's the way that it's done in Holland and the reason people support it is because it gives you a much better predictability of the pension that you're going to get, but also over time it gives you a much higher pension. Most of the calculations that have been done on this by the Government, by actuaries and indeed by ourselves suggest as much as 30% plus higher pension. Of course over time, there's nothing that's going to happen tomorrow, but for people in their thirties today a big and positive move.

LEWIS: Okay. I mean we've heard those figures – 30% more – partly because it's bigger, partly because costs are lower. Before we explore why that's the case, let me bring in Alan Higham. He's Head of Retirement at Fidelity. Alan Higham, you're not an enthusiast. Why?

HIGHAM: Well I'd say I'm relatively relaxed and it's not really my opinion that matters here; it's the opinion of our customers and our clients. I don't know of any of the employers that we run pension schemes for in the UK who actually want to offer one of these right at this moment. We do help Dutch employers run them, but there isn't yet the demand for them in the UK because employers are concerned about some of the risks involved.

LEWIS: Well I thought they were shielding employers from risks because the employer doesn't take any risk because it makes no promises. And I was speaking to a Dutch scheme yesterday and the employer has a fixed contribution for 5 years. It knows what it's going to pay in.

HIGHAM: Yes and that's how they might well start, but employers have got long memories of how schemes similar to this in the United Kingdom ran in the 1980s, and gradually we had a few more Queen's speeches in the 80s and the 90s and, before you knew where you were, the employer had cast iron guarantees that it had to provide upon the pain of insolvency.

LEWIS: Yes it was those guarantees that had made them so expensive, wasn't it? David Pitt-Watson, let's just come back to this idea. First of all, the size of these schemes. How on earth are you going to get them big because people have got all these freedoms now to take their money out? That's what's going to attract them, not staying in a pension scheme for years.

PITT-WATSON: Yeah you'd like them as big as possible and I think it's probably big employers that would be the first people to look at it. But you know I'd agree with some of the things that Alan's said. I mean there are two big caveats I think we need to have here. One is there isn't a perfect pension scheme out there. Look there are problems with the Dutch pension scheme - the flexibility of pensions in payment, for example.

LEWIS: Well they've had to cut them, haven't they?

PITT-WATSON: Exactly, on average by 2%. This compares with the …

LEWIS: And some by a lot more from what I heard yesterday.

PITT-WATSON: Up to 6% is the highest and that compares with a reduction in annuity rates of 25% over the same period, I think. Actually I'm using Alan's figures on that. *(Lewis laughs)* So they're still better, but they're not a perfect system. And the second thing, Paul, which I think we really do need to focus on is the Queen's made an announcement but we have no details yet.

LEWIS: No.

PITT-WATSON: And there is lots of devil in the detail of this and I hope this is something that you know people will continue to think about. In particular that these funds need to be run by trustee organisations.

LEWIS: Yes.

PITT-WATSON: Handing them over to someone who's profit-maximising is a really bad idea for this. So it's a big step forward, particularly for the long-term future, but we need the right governance.

LEWIS: Indeed. And we need to see the bills and the department made that point to me yesterday – they've not published them. And I have to say, Steve Webb, the Pensions Minister, did say in a letter today that he's going to propose something fully compatible with all those freedoms and won't be just delivering what he called "box versions of Dutch or Canadian models". Alan Higham – profit-chasing companies, they shouldn't be involved in pensions is David's point. Aren't you just trying to protect what you've got rather than looking to a new better future for pensioners?

HIGHAM: Well on the contrary; we're trying to protect people's pensions. And you know, as I mentioned, we do run these schemes in Holland and if they were here and demanded we'd help run them too here. But we have over a million people saving for their retirement with us and what we're hearing is the changes that you've already mentioned, Paul, are already causing huge confusion. That leads to paralysis of action and that inaction causes bad results. I've got two big problems really. One is the timing …

LEWIS: *(over)* Very briefly, sorry.

HIGHAM: … the timing is wrong. And it's if you like hiding the fact that we're not saving enough for retirement. If we don't save more, we'll be retiring at 78. Promising people 30% more will only encourage people to save an insufficient amount.

LEWIS: Indeed and I must stop it there. I'm sure we'll be coming back to this when we see the details. And that Dutch scheme, there's 21% going into it, whereas here it's generally a lot less. Thank you both, Alan Higham and David Pitt-Watson.

Now are you one of the thousands of people who regularly need to send cash abroad? Maybe you've got a holiday home or you work overseas or you support a student or a relative in another country? Well sending money across borders can be very expensive. Money Box listener Patrick Martin spends a few months out of the country every year. He wanted to find the best way to transfer cash.

MARTIN: I go to Australia for a period every year and I have an Australian bank account and need to transfer money into it. Currently I use a UK debit card, which has no foreign transaction charges for Australia, but that facility has now been withdrawn and so I'm now looking for an alternative where I can transfer money cheaply to Australia.

LEWIS: Well rather than giving the business to the banks and paying a lot for their service, Patrick was interested in using what he called peer-to-peer transfer websites. And our reporter Julie Ball's been looking into this. Julie, what did you find out?

BALL: Well there are three main peer-to-peer online sites: CurrencyFair, MidPoint and TransferWise. I specifically looked at TransferWise, which is the biggest operator in terms of the money transfers it's made.

LEWIS: And peer-to-peer - we use the phrase a lot, Julie. How exactly does it work for money transfers?

BALL: Well I spoke with one of the founders, Taavet Hinrikus, and I asked him how I would send £200 to Germany as an example.

HINRIKUS: At TransferWise, we operate a peer-to-peer network of bank accounts. So when you are sending £200 over to Germany, we receive your money in our bank account in the UK and then we pay your money out from our bank account in Germany. Therefore we can avoid actually having to move the money across borders; and by avoiding that, we save time and we save money when doing it.

BALL: Once the money arrives in TransferWise's account, you would then have to wait until someone in Germany matches the £200.

LEWIS: So you tried it out yourself. Was it easy to use?

BALL: Pretty simple. As easy as using your online bank account. You can send money either directly from your debit card or online from your bank account and then you just sit back and wait for a matching deal.

LEWIS: And how long did you have to wait?

BALL: Well I needed an exchange in euros and that took around 40 to 50 minutes. The website alerts you at each stage of the transaction, so you know exactly when the money is matched and when it's transferred to the recipient. My money will reach its final destination on Monday morning because I took the regular transfer. They guarantee whatever happens, you won't wait too long and that you will make an exchange within 2 days.

LEWIS: So Thursday to Monday in your case. How much did they charge you?

BALL: Well the charge was £1 as my transaction was under £200. Over this amount, it's usually .5%. It would cost you more with the bank. I checked with my own bank and the charge would have been a standard one of £25.

LEWIS: And how safe is it Julie?

JULIE: Well I put this to Taavet Hinrikus and here's what he said.

HINRIKUS: TransferWise is regulated by the FCA in the UK and that means we're covered by European legislation. We keep customer money in a separate account from our own money and additionally we are following all the same rules and regulations when it comes to anti-money laundering as commercial banks do.

LEWIS: Well we have to point out here that TransferWise and other peer-to-peer lenders are regulated by the FCA, but they are not covered by the Financial Services Compensation Scheme as they're what is known as a payment services company and are covered by a directive which says they must hold client's money in a separate account from the company's operating account. So if anything untoward were to happen, they could not use customer monies to bankroll the company account.

LEWIS: So why are they much cheaper than the banks?

BALL: Well the key thing is that they offer a much better exchange rate than the banks. But one thing to point out is that if you need to send a more unusual currency then peer-to-peer lenders are more restricted. TransferWise can currently send money to all 28 European Union countries, the US, Turkey, India, Hong Kong, Singapore and Australia. So if you're off to Brazil for the World Cup, you'll have to look elsewhere.

LEWIS: Thanks Julie. Well Emmanuel Addy is a foreign exchange specialist who's setting up his own comparison website, Moneycloud.com. What did he think about using peer-to-peer money transfer firms?

ADDY: I think if you look certainly at low value transfers, they certainly do offer good deals, they're very competitive. Companies such as TransferWise, you know currently their fee is I think about £1 for a transfer of £100 or £200, about 0.5%. So that's certainly very competitive when you compare that against perhaps the high street bank who'll charge you something in the region of £8 or £9 for a transfer.

LEWIS: And overall are peer-to-peer sites cheaper than going through even the best of the traditional banks? I mean HSBC, for example, was just charging £4 for a transfer.

ADDY: Yes I think would be the simple answer to that. But I think consumers come in all different shapes and sizes, so I wouldn't just say that one peer-to-peer company is right for everybody. If you're sending £100, that transfer will take probably (if it's a priority payment) may take a day or two or typically three or four days to reach the recipient. If you're using a peer-to-peer company, yes you'll be getting a good exchange rate and very low fee, so that makes sense. If, on the other hand, it's really important that the recipient receives that money within a few hours, you know you may look at a service like Western Union who offers the recipient to pick up the funds in a destination on the other side of the world within a matter of a few hours and in the local currency. They can walk into an agent, show their ID and pick up the funds.

LEWIS: But looking at the research that we've been sent by one of these peer-to-peer sites, admittedly Western Union is the most expensive of all of them.

ADDY: Yeah, absolutely. Western Union, you are paying for a service and that service is that there is the option to send funds to perhaps a country in an emerging market, say a country in Africa, and the recipient can pick that up within a few hours.

LEWIS: These peer-to-peer organisations are brand new. What's your interpretation of how safe our money is?

ADDY: You have to check that they are registered by the Financial Conduct Authority as an authorised payment institution, check that they're also registered as a money service business by the HMRC and they're complying with anti-money laundering regulations. They have to be operating segregated accounts and maintain strong finances. And those are all checks and balances that the FCA and HMRC have put in place to ensure that as new technologies come to the marketplace you know consumers' funds are safe.

LEWIS: So a segregated account means that my money is not mixed up with the general money of their business …

ADDY: Yes.

LEWIS: … and if they did go bust, my money would at least be separate from all that?

ADDY: Absolutely.

LEWIS: Emmanuel Addy. And with all these money transfers, the receiving bank may charge a fee as well.

New rights when you buy things over the internet, on the phone or on your own doorstep begin next Friday. The new law has been introduced under a European Directive and will apply a common set of principles throughout the 28 member states of the EU. That should make buying and selling simpler and more consistent for consumers and businesses everywhere in Europe. But will it? Sylvia Rook from the Trading Standards Institute is writing a guide to the new law for Trading Standards officers. I asked her what the biggest change would be?

ROOK: Most crucially the cancellation period now changes, so instead of being 7 working days, it's now 14 calendar days. And that's from when the goods are received.

LEWIS: Right, so something arrives in the post. You look at it. You've got 14 days in which you can simply cancel that contract completely.

ROOK: That's right. But it is now your responsibility to return the goods before the trader will give you a refund. The law at the moment just says that once you've cancelled, the trader has to give you a refund, but now you have an obligation to return the goods before you get the refund.

LEWIS: Can you examine the goods before you decide you just don't want them?

ROOK: You're allowed to do whatever you could do in a shop. That means you can examine them, but it means you can't use them. And again that's a slight change because the law at the moment says you must take reasonable care of them, but now it says that you can only really do what is done in a shop. And if you cause any damage or deterioration in value, then the trader can reduce the amount of money that they give you back.

LEWIS: So if you've used the item and then decided it doesn't really do what you expected it to do, you can have a deduction for the fact that it's been used once and maybe you've undone the packaging, maybe thrown it away.

ROOK: Yes it'll be a partial refund. I think what will be interesting is to see how the courts will decide what's reasonable for the refund because I can imagine a lot of traders will say well now we can't resell it for anything like the amount, so we're not going to give you your money back.

LEWIS: We've been talking about physical goods like, I don't know, a kettle or a dress or something like that. What about digital goods?

ROOK: This is the first time that the law has introduced a concept of digital content, so it’s recognising now that a lot of things like films, music are coming on a digital download. And you do have the same rights now with digital download. Once you’ve entered into a contract for a movie or some music, you still have the right to cancel but you lose that right once you’ve downloaded the product whatever it is.

LEWIS: I see. So you can order it, but not download it. But downloading is just like delivery through the post surely?

ROOK: The difference between digital downloads and receiving an item through the post is that once you’ve downloaded, you have the downloaded information on your computer. You have effectively a copy of the music or a copy of the movie and therefore it can’t be returned, you’ve already got it.

LEWIS: Is it possible to summarise in what ways these new rules are better and in what ways they’re not so good?

ROOK: I think one of the things that’s very positive for consumers is that now if you’ve bought goods and there is a customer helpline - that helpline must not be a premium rate number. It’s got to be a basic rate number, so it can be be a landline or it can be a mobile or it can be an 0800 number. So they can’t now charge you extra if you’ve got a problem with goods and you’re making a complaint or making a query. Another thing that’s in the consumer’s favour is that the trader can no longer put pre-ticked boxes to add on insurance or something like that.

LEWIS: And in what ways are these new laws worse for consumers?

ROOK: I think the rules in relation to doorstep selling is a lot more complicated now both for traders and for consumers. On your doorstep at the moment when you agree to enter into a contract, you’ve got 7 calendar days where you can make a decision to cancel before any work can be done or before you have to make payment for any goods. And the rules are changing on that now. And particularly if goods are being made for you - and that could be double glazing potentially - then you have no right to cancel, and I think that might be a bit of a shock to some people.

LEWIS: Sylvia Rook from Trading Standards Institute. And those new rules apply to contracts entered into from next Friday, June 13th.

It's almost a year since the Archbishop of Canterbury, Justin Welby, launched his attack on payday lenders and promised the church would "compete them out of the market." Well a year on, the Church of England has launched a scheme to get churches to run their own banks with their local credit unions. It's being piloted in three areas in London and Liverpool, but some smaller churches have already started their own lending scheme. Hannah Moore visited All Saints Church in Murston in Kent to see how it works there.

MOORE: A cup of tea, a listening ear - these are some of the reasons people visit All Saints Church during the week. But today they're offering a different service and that is cold, hard cash. In January they opened their doors to the local credit union to provide loans and savings. What does the church know about how to run a bank?

THOMPSON: I'd like to make a deposit into my account, please.

BROMWICH: Okay, will you be paying by cash or by cheque?

THOMPSON: By cheque.

MOORE: Ian Thompson was among the first to open an account.

THOMPSON: I'm saving for particularly a trip to see relatives in America and we're looking at something like £900 for a pair of air tickets. It says in the Bible about you're putting your wages into a pocket with a hole in it and that exactly describes inflation.

MOORE: Ian can expect a return of around 1.1%. That's better than the average savings account. He's managing his money well, but some people in this area have debt problems and they're who the church is most concerned about.

BROMWICH: We found that people that come in here, there's two taboos. One is walking across the church door in the first place and the second is admitting that they're in trouble.

MOORE: I met Philip Bromwich, the church warden, behind the banking counter – a small wooden desk that's been set up in the vestry.

BROMWICH: Both I and my wife, who's also the church warden, we both used to work in the bank, so it was quite useful because the credit union Kent Savers had never had a branch before. We were the first one. And so we had to knock 'em into shape in a little way.

MOORE: So in what ways did you have to help?

BROMWICH: Well they had no mechanisms in place for dealing with the cash that we were taking, deposits we were taking in, and so we had to sort that out for them and get them to understand what we needed to do to get rid of the money off the church premises because obviously we don't want to keep lots of money on church premises.

MOORE: So what rates are they offering? Chris Hunt is from Kent Savers Credit Union.

HUNT: Our cheapest loans are at 5.9% and that's certainly comparable with high street, and in terms of our very small loans you'd be paying no more than 42%. We're definitely comparable and somewhat cheaper in almost every part of our loan book.

MOORE: That certainly is cheaper than payday lenders who typically charge over 1000% APR. The smallest loan Kent Savers offer is £300. I'm told they'd make a loss on processing anything less. They do all the checks you'd expect from a bank.

HUNT: We ask to see people's bank statements and we do do credit checks. We can see people's indebtedness from the credit check and we've got a number of other tools in the office to assess whether we believe the loan is affordable.

MOORE: It may run through a church, but the credit union won't show forgiveness if you default on repayments.

HUNT: If someone defaults effectively it's other people's money that they're not paying back and so we have to use all the resources available to us, potentially go into law using debt collectors. We try not to be unfriendly and we believe we're a very friendly organisation.

MOORE: They're calling this a "community" bank because it's open to everyone in Kent, not just Christians. Much like a payday lender, the church promises to help people in desperate financial need, but come here expecting a loan and you might be talked out of it. Reverend Lesley Jones.

JONES: We turned over just under £50,000 in the first 3 months of trading, if you like, and of that only £3,000 was in loans because we'd diverted, we'd signpost, we'd help people solve problems and begin to dig themselves out of debt.

BROMWICH: We had a lady that came in very early on when we were open and she'd borrowed £500 from a payday lender. She'd made two monthly payments on time, she wasn't in arrears, and in that 2 months her £500 debt had become 886 quid. We generally find when we talk to people that the last thing they actually need is a loan. We would try and talk them through and find out if there are other ways that we could help them and we can point them into certain organisations that can actually supply them with white goods if they're in that sort of desperate need.

MOORE: This is the first in the county, but it won't be the last. Kent's second community bank is due to open within months and parishioners there are already taking lessons in loans with their tea and biscuits. Over the next few years churches across the country will be following the example set by All Saints.

LEWIS: Hannah Moore in Murston.

Well that's just about it for today. There's more information, there's links on our website, bbc.co.uk/moneybox, where you can download the programme, listen to past episodes and send us your ideas – as many of you do. You're already emailing about today's stories. Many people with their own ways to transfer currency across borders. And also David emails a team of Dutch experts is considering moving to the British system. A team of British experts is considering moving to the Dutch system. Well

Ruth Alexander's here on Wednesday with Money Box Live, this week taking your questions on student finance. I'm back with Money Box next weekend. Today the reporters were Julie Ball and Hannah Moore. The producer was Lesley McAlpine. I'm Paul Lewis.