**MONEY BOX**

**Presenter: PAUL LEWIS**

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**LEWIS:** Hello. In today's programme, Britain's biggest insurer, Aviva, is writing to tens of thousands of motor insurance customers warning that personal data has been leaked. Twelve months to sort out your mortgage before rates rise; a member of the committee which fixes them says they could go up next spring. A hundred and thirty thousand Vodafone shareholders will get a windfall soon averaging more than £3,000. What should they do with it? New rules from Europe are supposed to give investors clear and honest information about cost, but will they? And is there a need for bank branches?

But first, Britain's biggest insurer is writing to tens of thousands of motorists after concerns that two employees stole details of people who'd recently had accidents and then sold them to claims companies. Some Aviva customers and people whose vehicle has been damaged by an Aviva customer have been getting nuisance calls from firms encouraging them to pursue personal injury claims. Bob Howard's been looking into this.

**HOWARD:** Paul, Brian from Warwickshire has had his car insured with Aviva for several years. Two years ago he was hit by another motorist.

**BRIAN:** A lady came out of a side street and hit the front of my car. Neither of us were injured, it was a very slow speed accident. There is absolutely no reason for anyone to think that either driver is eligible for any compensation for injury. And ever since then I've been receiving phone calls on my mobile from what I term "ambulance chasing" companies saying that there is thousands of pounds of money set aside for me as a result of this accident.

**HOWARD:** Brian thought that Aviva had passed on his details to the claims companies.

**BRIAN:** They said that they were acting on Aviva's behalf almost, some of them, so I assumed that this was normal industry practice that a car insurance company would disclose this information to third parties. I didn't know any better.

**HOWARD:** Only this week did Brian discover Aviva believed the details of his accident had been stolen by two of its employees and sold to the claims companies. The letter Aviva sent him told him what happened, that the relevant authorities had been informed, and that no medical or financial details had been taken. It lay the blame for the breach firmly on the shoulders of the claims industry.

**LETTER FROM AVIVA:** As you may be aware, some personal injury lawyers and claims management companies are very keen to acquire accident victims' details. Aviva has long called for stricter regulation of these firms. I appreciate that this may still be of concern to you and I apologise for any inconvenience this may have caused you or your family.

**HOWARD:** It then listened a free phone number which customers could ring. Money Box listener Pauline phoned the number and asked what Aviva was doing to prevent this from happening again. She said the reply was unconvincing. The insurer's response also hasn't gone down well with Mike Crockart, MP for Edinburgh West and Co-Chair of the All Party Parliamentary Group on Nuisance Calls.

**CROCKART:** They still appear to be in a little bit of denial, as if it's a small issue, and still very much portraying themselves as the victim. It’s quite clear who the innocent victims are. It’s the people who are receiving the nuisance calls and being bothered by the claims management companies. The data that major companies hold has a value. It’s up to those companies to make sure that they manage that data and I think they need to change the way that they are looking at this and then perhaps come at it with fresh vigour.

**HOWARD:** Aviva told Money Box nobody was available to be interviewed, but it said it was looking to see what it needed to do to prevent incidents of this nature happening again. It said it had first started identifying this problem last summer when it picked up on customer complaints, but Money Box listeners say they have been receiving from claims companies as far back as 3 years ago, which they believe must have come from Aviva data. When they phoned Aviva to complain, they were told the insurer was definitely not the source. Aviva only identified that it was its information being used at the end of last year. It then finally began contacting both Aviva customers and people involved in car accidents where the other party was insured by Aviva. In all, it says that’s tens of thousands of motorists. Hundreds have contacted the insurer to confirm they have been approached by claims companies. It’s offered to change Brian’s phone number to stop him getting nuisance calls, but Brian believes Aviva should be doing much more.

**BRIAN:** I think they should compensate all their customers with something. Otherwise when it comes to renewal, which is next month, some people are going to vote with their feet, aren’t they?

**HOWARD:** Aviva said it would look at claims for compensation but only on a case by case basis. The City of London Police says two men have been arrested and released on bail on suspicion of fraud by abuse of position.

**LEWIS:** Thanks Bob.

Interest rates will start to rise in just over a year. Well that’s not me saying that. It’s the guidance from Martin Weale, a member of the Bank of England’s Monetary Policy Committee, which has kept the bank rate at 0.5% for almost 5 years. But Dr Weale said this week the most likely path for interest rates is that the first rise will come perhaps in the spring of next year. If he’s right, people with mortgages have barely a year to make sure they can afford higher repayments. Ray Boulger is Senior Technical Manager from brokers John Charcol. Ray Boulger, Martin Weale gave this guidance on Thursday. Have any of the mortgage providers changed their rates yet?

**BOULGER:** Well we have seen a number of lenders put their rates up over the course of the last few weeks, including some announcing rate changes yesterday. I mean Metro Bank, for example, are putting their 5 year fixes up by 20 basis points tomorrow; Halifax have withdrawn all their 5 year fixed rates above 60% LTV. So this is a continuation of a trend we’ve seen for some time.

**LEWIS:** Yes, so they’ve been looking forward to rate rises; and now of course, with what Martin Weale’s been saying, it’s sort of crystallised it. Should people on standard variable rates, who of course will be affected by this most, should they be fixing now?

**BOULGER:** I think in the main they should and they should be looking at 5 year fixes rather than 2 year fixes.

**LEWIS:** Even though they’ve gone up slightly?

**BOULGER:** Yes. You can still get 5 year fixed rates under 3% if you’ve got plenty of equity. The problem with a 2 year fix is that you’re only buying protection for a period when rates are not going to rise much and then of course you’ll be stuck with re-fixing at a time when rates are probably higher and you’ll have to pay more fees. So although you can get 2 year fixes under 2%, I’d say for those people who plan to stay in their property at least 5 years and therefore don’t risk not being able to port the mortgage, 5 year fixes make sense.

**LEWIS:** Yes. And of course there may be a case for waiting, I suppose, if you're saving up and you'll be able to get a higher … sorry a lower loan and have a bigger deposit?

**BOULGER:** Well that's certainly true. I think probably what will be more relevant to more people is that with house prices rising throughout the country, if your current loan to value is something like 90%, if you wait a few months a good chance with a combination of your mortgage repayments and an increase in the value of the property, it comes down by 5%. Then you get rates quite a bit cheaper. And that's a balancing act. I suspect rates won't go up that quickly, so anybody in that situation may find it worthwhile waiting.

**LEWIS:** And briefly, people with interest only mortgages, not paying off the capital at all, this is a bit of a wake-up call for them, isn't it?

**BOULGER:** Well one of the key differences when rates go up is that if you've got an interest only mortgage, your rate goes up directly in line with the increase in your rate; whereas with a repayment mortgage, because a good slice of your monthly payment is repayment of capital, it only goes up more slowly. And the further into your mortgage you are, the more slowly it goes up. So yes anybody with an interest only mortgage should take advantage of current low rates to overpay if they can.

**LEWIS:** Ray Boulger of John Charcol, thanks.

Now good news this week for the 130,000 people who have shares in Vodafone. The firm has sold its stake in the US firm, Verizon, and is dividing £51 billion of the money it made among its shareholders. For each share, they'll get about 30p cash and 72p worth of shares in Verizon and they'll convert their shares into new Vodafone shares. That's an average £1,000 in cash and more than £2,400 worth of Verizon shares. Money Box listener Mike Bennett is waiting for the money. He's desperate for advice.

**BENNETT:** Please, please, please find a little time on Money Box for all small Vodafone shareholders about what option to elect for regarding the sale of US Verizon shares. What can we expect if we opt for income, for example, and what is this IRS form W-8BEN? Some knowledgeable explanation of all the options would be great. There must be a lot of other people like me out there unsure what to do.

**LEWIS:** Well we'll come onto that form later, but let's talk first about what people should do with whatever money they've got left from this deal. Gavin Oldham is Chief … sorry Executive Chairman of the online broker The Share Centre. Gavin Oldham, some cash, about twice as much in shares, and new Vodafone shares. Should the cash be reinvested back into more Vodafone shares?

**OLDHAM:** Well that's a challenge. Vodafone will be about half the size that it was previously. It'll still have a yield of around about 4.7% a year, but we feel probably that there are some good alternatives to that. For 1,000 old shares in Vodafone, you get 545 new ones - which incidentally start trading on Monday - and you'll get 720 pounds worth of Verizon shares, 26 Verizon shares themselves that are fractions, and you'll get that £300 of cash. Now the thing is that you will have already elected what to do with your Verizon shares - and, as you say, we'll come onto the tax effect of that in a moment - but it's a lot of money going back into the market, probably the largest reinvestment spree in history.

**LEWIS:** And that's going to affect the market, is it? Because everybody's buying shares, that's pushing the price up?

**OLDHAM:** Yes, we think something like £7.5 to £15.5 billion will be going into blue chips in the UK equity market, so I think probably it'll push the FTSE 100 through its all time high, last achieved 14 years ago, within the next 2 weeks. Quite a major change.

**LEWIS:** Yes all time high so far. And about the Verizon shares. You've got some. You've made your choice. Should you be keeping them or should you be thinking of selling them?

**OLDHAM:** I think most people will be selling them. They've got until 4th April if they're on the register to elect for a free sales service, and with that you know amount of money that you've got, you might be looking at companies like National Grid, United Utilities, Glaxo, Royal Dutch, Shell, BP. You know there are some good income producing defensive stocks to go into.

**LEWIS:** Yes and of course Vodafone did produce an income through dividends. That's what people will be looking for presumably?

**OLDHAM:** Yes, I think income producing defensive shares will be the area people look for and of course they'll be the area which benefit in the blue chips.

**LEWIS:** Well stay with us Gavin. But however much you get, will there be tax to pay on it? Let's go live to Gloucester to talk to Mike Warburton of accountants Grant Thornton. Mike Warburton, I was hoping it was going to be simple. I fear it's not. Tax on the cash first.

**WARBURTON:** Well first of all, Paul, there's two types of cash. Nothing so simple as just cash.

**LEWIS:** *(laughs)* I knew there would be.

**WARBURTON:** Cash in two types. And you have made your election for B shares or C shares. And the point is that if you take the - and this is Vodafone being helpful, they want people to get the best out of this and quite legitimately reduce their tax bill -

so by offering B shares, when those are sold you'll get the cash from those. That gives you a capital gain. So if you've got your annual capital gains exemption unused or enough left, there won't be any tax because it's a capital gain in the normal way.

**LEWIS:** And that's £10,900 this year.

**WARBURTON:** £10,900. So for most people that's going to be more than enough. For C shareholders, if you've elected for them, that's the income option, and what that means is you'll receive in effect a special dividend. And for basic rate taxpayers, because of the tax credit that comes with it, there will be no extra tax to pay. For people who normally pay at 40%, higher rate taxpayers, it works out at about 25% of the cash dividend that you receive.

**LEWIS:** Okay.

**WARBURTON:** So that's as far as the cash is concerned.

**LEWIS:** And what about those Verizon shares?

**WARBURTON:** As far as the Verizon shares are concerned, when you held onto it you're now going to enter the murky world which is trying to force together the two most complicated tax systems in the world here in the US. So the form W-8BEN is issued by the United States authorities effectively to make sure that taxes withheld on this - in the event that some of their residents are owning shares through somebody over here for example - the W-8BEN form, if you're going to keep the shares you really should send this form in. It's a simple form - name, address, confirm that you're the beneficial owner of the shares - that's what the BEN stands for. And what that means is that the withholding tax taken off in the States instead of being 30% of the dividend - as it normally would be - it'll be reduced to 15%, and that's a direct saving to you. So whether you're a basic or higher rate taxpayer, you probably want to make it. Basic rate taxpayers receiving a dividend will have the 15% taken off in the States but no further tax to pay. And for higher rate taxpayers - and I've done all the sums - there's a bit of extra tax to pay. It works out at about 8.3% of the actual dividend. There you are.

**LEWIS:** I'm glad you've done the sums. And Gavin Oldham, very briefly, where do you get W-8BEN from? Where do you send it to?

**OLDHAM:** Well if you've got shares on the register, you'll get it from your registrar. But otherwise go to your stockbroker and they'll make it simply easier for you if you just give them a call, ask them to send you the W-8BEN.

**LEWIS:** Okay Mike Warburton at Grant Thornton, thanks. And that was Gavin Oldham of the Share Centre. Thanks to him too.

Now a new European law was passed this week to try to make the cost of investments clearer to customers. At the moment many costs remain hidden, even from the figure called Total Expense Ratio (or TER) which helpfully isn't a total, arguably not a ratio and nor does anyone actually spend it. The new law is supposed to end all that secrecy. MiFID II it's called and it says that investors will be given a single figure to encompass all the costs and charges associated with their investment, and they can have a breakdown of that single figure if they want to know how it's arrived at. But there's a long way to go The new law's been written. It won't actually come into force until the end of 2016. Live now to talk to Gina Miller of the True and Fair Campaign who's been producing, guess what, a single figure to encompass the cost of investment funds now for 2 years. Gina Miller, encapsulating all those costs in one figure, I'm told isn't easy, but you've been doing it. What does your figure include that others miss out?

**MILLER:** Well the investment management association in particular, the numbers that they've been coming up with and other members has actually left out something called the transaction costs which can add another 50% or more to the annual management fee. Recent independent research, for example, showed that the total cost of all levels of advice and investment products from some of the large investment and wealth managers can actually vary from 1.7% to 7.5%, which is a huge range.

**LEWIS:** And those transaction costs are the costs of buying and selling shares in the funds or other investments in the funds, but of course you never know what that's going to be next year. You can tell me what it was last year, but looking ahead you can't say well it will cost so much next year. How do you do that?

**MILLER:** Well this is the argument from the industry - is that they'd prefer to have a number that's 50% but 100% correct rather than what we've been working on, which is based on the old-fashioned reduction in yield and looks at what a fund manager or an investment manager's been doing over the last 3 years and smoothing that. And what you get to is a number that's 95 to 99% right. As you say nobody has a crystal ball, so you can't tell what the manager will do in the future, but you can look at what they've been doing over the last 3 years. And if you update that on an annual basis, you get a very good estimate.

**LEWIS:** Now this all sounds good. We're going to go to our financial adviser or whoever and they're going to say well it's going to cost you X%, but the Investment Management Association that you mentioned, the trade body for investment funds, says this new law doesn't apply to collective investment funds like unit trusts, which of course is what a lot of people invest in. Is that your understanding?

**MILLER:** Well I think the IMA is living in cloud cuckoo land and a place where it doesn't seem to have any logic because if the end adviser or platform is going to have to supply a total cost of all fees at all levels, then that surely logically includes the instruments that are being sold by investment managers. So it is completely wrong in our view and that they will be covered.

**LEWIS:** So because the adviser has to give you that figure, the only place they get a lot of that data from is the investment fund, so it will have to provide it. Now what the IMA said to me yesterday when I talked to them about it is well we are trying to provide more information. There’s a huge number of acronyms here. There’s SORP (the Statement of Recommended Practice) for their accounts which will produce that figure. And then there’s something else coming up from Europe called PRIP, which is going to be tougher and make this more transparent in the future. So all of that will happen, but when?

**MILLER:** Well the PRIPs, as you call it, PRIP, will follow probably after MiFID comes into rule. So there are lots of directives coming from Europe, but here in the UK the FCA and the IMA are actally doing very little. What the IMA is doing is coming up with consultations when it actually knows the answer. Every member in the IFA knows what their costs are. They know what they’re paying. All they have to do is add it up. And the proposals that they’re coming up with actually don’t add up anything, is hidden in the annual report and accounts so you can’t see it prior to purchase. And they’re missing that point - is that people need to be able to see before they buy something and make a better comparison and better choice. And the other thing is there’s …

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

**MILLER:** … about 23 levels in it. There’s no clarity. And the FCA’s own rules says communications have to be clear, fair and not misleading, and everything that the IMA is proposing is misleading in our view.

**LEWIS:** Gina Miller, thanks. And we did ask the Investment Management Association to come on Money Box, but for its own reasons it said no, thanks.

Santander is the latest high street bank to say it’ll be shutting branches across the UK. It says it’ll be closing 139 of them this year. That follows announcements by Barclays that maybe 400 will close and by Cooperative Bank that it will close 50 of its 324 branches. But does it matter? Many of us bank exclusively online and never set foot in a branch, so is there a need for physical branches at all? We brought together Derek French, who's Director of the Campaign for Community Banking, and Chris Skinner whose book 'Digital Bank' was published recently. I asked Chris Skinner first how many branches banks actually needed.

**SKINNER:** Most of the UK banks at the moment are saying around 700 or 800 each would be about right, which is a significant amount less than they currently have. If you look at Lloyds, today they have about 2,260 branches and RBS has 1,750, so it would be more than a 50% reduction on the current number.

**LEWIS:** Well also with us is Derek French. Derek, what is community banking? How would that fit in with a new branch structure?

**FRENCH:** We're very sure that the numbers will come down dramatically. It's really all about the pace at which they do that. We have been pushing for some years now the concept of branch sharing - a community bank, banking centre open to all for the transactional needs that remain. There will also be the need to resolve issues that you can't resolve over the telephone or online.

**LEWIS:** Yes, so we're coming down to the point really, aren't we now, what do people use banks for and can we get rid of any of those things?

**FRENCH:** There are some sectors - and the small business sector is the obvious one because they deal still a lot in cash and cheques - 60% of small businesses visit their bank at least once a week, 10% do so every day. There's a whole lot of voluntary organisations out there who also have a need for bank counters and some of what we loosely call vulnerable people. Collectively it is still a lot of people that actually do need to use a branch counter.

**LEWIS:** Chris Skinner, are the things we use banks for disappearing? We're using less cash, we're using fewer cheques. Are they going or are there things that you think there will always be a need for?

**SKINNER:** Well I think there's two radical change shifts taking place as we speak. One is that a large section of the population is moving to remote digital self service channels - mobile banking in particular.

**LEWIS:** Mobile phone banking, you mean?

**SKINNER:** Mobile phone banking, yeah, because people are comfortable with the technology and how to use it. The other change shift is the more challenged people - the mobility challenged, the small businesses - if they are using cash and cheques, it's because there isn't a good alternative out there. So when the Payments Council, for example, said let's get rid of cheques by 2018, they had to reverse that because of small businesses, churches, scouts and the elderly population. But there is an alternative out there now. You know you can deposit a cheque using a mobile phone, so you don't need to go in a branch for that even.

**FRENCH:** You may be able to do that in America today. What has been announced in the UK has been a consultative process by Treasury to change the parliamentary legislation that replaces the acceptance of a digital image for the paper. Now that will take some time to go through. The banks themselves have a lot of technology problems to overcome. And there is a big cultural problem here. I mean I'm very much in favour of what is happening and looking forward to it happening, but it ain't going to happen overnight in this country.

**SKINNER:** And what about taking out cash? I know we can get reasonable amounts out of a cash machine, but if you want several thousand pounds - for whatever reason - you have to go to a bank, don't you Chris?

**SKINNER:** Well again still if there's a large bank branch in metropolitan centres and in large shopping malls, then that’s the place to go. The one thing that we haven’t touched on is that Barclays have a partnership with Asda and HSBC have a partnership with Marks and Spencer, so there are going to be alternative physical channels where you can visit and get bank branch services in those channels.

**LEWIS:** But Metro Bank, for example - one of the challenger banks, the new banks - it’s only got 25 branches and they’re all within the M25 area, but it wants branches. It’s spending a lot of money on smart, new branches where you know your dog can have a drink and you can throw cash into a coin counting machine. Isn’t that one of the futures that they certainly believe in, Derek French?

**FRENCH:** Yes, I think that’s right. I mean I think that the full service branches that we will see - and I think there will be 500 or 600 of them in larger centres - will be an all bells and whistles experience if you like, but we still need to provide in other centres - in the secondary, tertiary areas of our large towns and cities, in some of our market towns and our rural villages - we’ll still need something. And there is this very cost effective system of branch sharing which operates throughout the United States. We could do this very simply here and solve the bank’s problem and solve the customer’s problem at the same time.

**LEWIS:** But Chris Skinner, we have the Post Office. What’s wrong with that?

**SKINNER:** Well the Post Office is a branch operation that’s almost becoming the last branch in town for a lot of people.

**LEWIS:** Yes because you can do most of your banking business with most of the major banks at the Post Office, can’t you?

**SKINNER:** To a large extent. And although the shared branch model that Derek refers to works in America, it won’t necessarily work here. They don’t share technology, they don’t share ideas behind the banking services that are offered.

**LEWIS:** And leaving aside the sort of old-fashioned things if you like, like cash and cheques, nowadays banks do have to be absolutely sure that the person they're lending money to or the person that's taking out £10,000 in cash is the person they say they are. Does that require face to face contact somewhere with someone?

**SKINNER:** Well in fact right now that's probably the only reason why a bank will keep their branches long-term because they are very concerned about know your client, which is a regulatory thing that says when you come in they need to know that it's really you taking out that money and they need to know when you open an account that it's really you that is opening that account and not some other Paul Lewis who actually has just taken your name.

**LEWIS:** There's a lot of us about.

**SKINNER:** There are.

**LEWIS:** Chris Skinner and Derek French. There's only one Bob Howard though. He's here with twitters and email responses on Aviva.

**HOWARD:** Yes Paul, a number of listeners have told us how Aviva reacted when they tried to alert it to the fact that claims companies were using its data. Ashley from East Sussex says they swore blind they'd not passed my details on. I even suggested a rogue employee and they dismissed my suggestion making out I was even wrong for bothering them about this.

**LEWIS:** Thanks for that, Bob, and they're still coming in. You can send more and get more information from our website: bbc.co.uk/moneybox. Do lots of other things there as well - give us your ideas, download the programme. Lesley Curwen's here on Wednesday with Money Box Live taking questions on powers of attorney. I'm back with Money Box next weekend. Today reporter Bob Howard, producer Wesley Stephenson. I'm Paul Lewis.