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MONEY BOX

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LEWIS: Hello. In today's programme thousands of small businesses have been mis-sold complex products they didn't need and often didn't understand. Small businesses are also being hit by the RBS computer failure as credit card payments are held up, and in Northern Ireland and the Republic of Ireland nearly 2 million customers still can't access their accounts. A new call for action over the closure of current accounts where fraud is suspected. And if you leave your foreign currency card in a drawer for next year, the terms and conditions moths may nibble away at the balance.

But first, banks. Even the Governor of the Bank of England joined the criticism this week, accusing the banks of "shoddy" treatment of customers. That was after the latest scandal identified by the Financial Services Authority. In a damning report, it says banks mis-sold small and middle sized businesses complex products they didn't often need and often didn't understand. The firms asked for a loan, but commission driven staff also sold them products which were supposed to reduce the risk of interest rates rising. A typical target was Anne. She and her husband signed up for a loan and then one of these interest rate collars, as they're known. Interest payments on the loan were £1,000 a month. Anne thought the collar product cost just a one-off fee of £2,800, but in fact she'd agreed to pay an extra £650 a month for 10 years. That's more than £80,000 in total for a product she didn't initially ask for. She says that wasn't explained.

ANNE: We weren't sat down and you know told if the rates went down to as low as this, we would pay £650 a month. On top of our loan, it really, really has caused us a lot of financial difficulty. My husband works 12 hours a day and it's made him ill and I feel foolish and I've been very naïve and I'm upset because I signed it. (*crying*) And my husband just, just trusted me. We've never missed a payment, we've never missed a mortgage payment. That's all we can do is just keep paying it.

LEWIS: Well Anne's case will be one of the 28,000 that the four guilty banks - Barclays, HSBC, Lloyds and RBS - will review. There's no timetable for that, but the Financial Services Authority told me the focus is on getting it done as soon as possible. Well live now to Cardiff to talk to Martin Berkeley. He's a senior consultant at Vedantahedging.com. Martin Berkeley, you used to sell these products for one of those banks. Now you help people who've got them. How are they supposed to work?

BERKELEY: Hedging is not necessarily a bad thing if you can remove the risk of interest rates damaging the business when they go up. The problem is when they introduce new risk to the business - i.e. when interest rates fall, or extra exit costs which the client isn't aware of - so those need to be explained very carefully to the client.

LEWIS: Yes, I mean in the case of Anne and her husband, the interest rate was guaranteed to stay in a band of 5% to 6.25%, and of course rates are a lot lower than that. Now you've seen the transcript of the phone call between Anne and her bank when she actually agreed to this. Was it properly sold?

BERKELEY: I would have serious questions about the client's understanding, whether she really understood what she was getting into. There wasn't a clear explanation of all the risks and there was no clear explanation of the potential exit costs and the liabilities that would cause.

LEWIS: Yes because of course she has tried to get out of this deal and has been told

that would cost her thousands and thousands of pounds, so they're staying in and trying to keep enough money coming in to keep the payments up.

BERKELEY: Yes, that's a real cost to the bank because they have to actually value it on exit. Now ideally the bank should not add any profit onto that exit cost. Banks sometimes do.

LEWIS: Yes I mean as far as I can see from the document she sent through, which I know you've also seen, the fees weren't made clear, the risk wasn't clear. She certainly didn't realise she was paying this £650 a month till she read the bank statements.

BERKELEY: The suitability of the product is something that the banks should explore before they sell it, and there were potentially more suitable products but they don't seem to have been explored.

LEWIS: No because of course if interest rates had risen strongly, it might well have been a good idea?

BERKELEY: Yes indeed.

LEWIS: So you know people will say well she took a chance and she's lost the bet, but it was because the bet wasn't made clear. The FSA also blames commission for driving sales. How much commission did people get? How much did you get to sell them?

BERKELEY: It varies from bank to bank. The bank I worked at, it was an annual bonus and there wasn't a correlation between each individual product and the bonus you got. Other banks there is, but also the bank manager that introduces the client to the risk management department is often targeted with introducing a certain number of customers.

LEWIS: So some pressure to sell. Martin Berkeley, thanks very much for talking to us.

Now it's eleven days since the technical fault which stopped the computers at NatWest, RBS and Ulster Bank updating customers' accounts. It left millions of customers unable to see their balance, make payments, or in many cases access their own money. The bank says things should be back to normal for the vast majority of RBS and NatWest customers, though many of you have been telling us you're still experiencing some problems. And many small businesses using the Streamline service for their credit and debit cards have been without three days' money. Stephen Brooks runs a business in Hertfordshire.

BROOKS: We're an IT business that are currently owed several thousands of pounds from Streamline. We've been onto them a number of times and they've been unable to really give us any concrete information as to when we're likely to receive our money. The knock-on effect for us as a business is not being able to supply our customers with the equipment that they need and also for future orders and paying suppliers as well. I heard today that Stephen Hester has said that he'll forego his bonus. I suggest he takes his bonus and then distributes it amongst small businesses like us as a way of helping.

LEWIS: Stephen Hester of course the Chief Executive of that bank. That was Stephen Brooks and we've had many other similar emails with small businesses facing real cash flow problems because of that. We also know that up to 1.9 million customers of the RBS subsidiary - Ulster Bank in Northern Ireland and the Republic - have been told they'll get no access to their accounts until Monday at the earliest after RBS decided (for what it calls "technical reasons") to leave them till last. Sean McElhiney had to fly out to Portugal after his 18 year old brother on holiday with friends couldn't get money out of his account.

McELHINEY: My brother rang me on Sunday after having not ate, nor drank. He said, "Look we've absolutely no money. We've got 80 euro and we need it for a taxi

to the airport.” I then rang my anytime banking and asked them was there any way they could apply an emergency overdraft to my brother’s account. They then said no, that they didn’t have the facility to do it; the technical glitch still hadn’t been resolved. So I got over to Portugal, brought them their money. My flights to Portugal and back were upwards of £360.

LEWIS: Well that was one experience from Northern Ireland. Live now to Belfast to talk to Antoinette McKeown, Chief Executive of the Consumer Council of Northern Ireland. Antoinette McKeown, how bad are the problems there?

McKEOWN: Well they are extensive. As you said, we’re into day eleven. Payday was yesterday right across Northern Ireland, so every single working Ulster Bank customer and every employer who banks with Ulster Bank are now affected, and there are many, many more than the 100,000 customers that Ulster Bank say are now affected across Northern Ireland.

LEWIS: Yes, I think that was an early figure. They certainly confirmed to me it could be affecting all their 1.9 million customers both in Northern (Ireland) and the Republic. Who is suffering most? Presumably it’s the people who rely, as many of us do, on that monthly or weekly or benefit payment arriving just when they’ve run out of money?

McKEOWN: Absolutely. And I think in today’s environment where so many people are struggling, the Consumer Council has been hugely concerned about basic bank account holders, and they’re primarily older people, low income families, people reliant on benefits who invariably don’t have the financial capability skills and aren’t confident enough to go into the bank and demand access to their own money.

LEWIS: Yes because Ulster Bank does say if people visit a branch and you’ve got a payslip or a letter from the department saying what your benefit is, with a passport or picture ID they will give you money. Is that working?

McKEOWN: Well since the crisis started, the Consumer Council has repeatedly been told by Ulster Bank that customers will have no problems accessing their own money at an Ulster Bank branch. However, it's clear to us that some customers are having difficulty getting hold of cash at an Ulster Bank branch. We've heard cases where customers have been set a limit on how much they could withdraw, being refused cash from their savings account, being refused an overdraft (as we've just heard from Sean and his brother) or simply told they couldn't withdraw any cash at all, and this is completely unacceptable.

LEWIS: And very briefly, Antoinette, what can people in that situation do?

McKEOWN: Well we are advising consumers to go into your bank with your ID, with your payslip or your benefit slip and insist on getting access to your money and overdraft or emergency funds. We have given out a telephone number for those people in Northern Ireland who are experiencing difficulties and we also want to hear in the Consumer Council from people who are still having problems.

LEWIS: Antoinette McKeown, thanks very much for talking to us. So what are the banks - RBS, NatWest and of course Ulster Bank - going to do to compensate maybe millions of people affected by this extraordinary disaster? Money Box's Fiona Woods has been looking into this. Fiona?

WOODS: Well Paul, last week RBS said no-one would be left out of pocket. Ever since then, we've had no more clarity on what that means or how far compensation will go. And we know overdraft fees or charges on current accounts are being waived and that they will reimburse charges levied by another bank, but we don't know if it'll cover the cost of being stranded abroad, for example, and having to pay for an extra flight or the expense incurred by people who might have had to take out a high cost loan with a payday lender, for example. RBS had said there would be more information on this by the end of the week, but we've heard nothing.

LEWIS: Thanks very much, Fiona. Well one big worry of course is how missed payments on a mortgage or a credit card will affect your credit record and that could last for up to 6 years. With me is Tom Ilube, Managing Director of the credit reference agency Callcredit. Tom Ilube, the bank says this: there should be no adverse impact on credit ratings as a result of this incident. Can it guarantee that?

ILUBE: Well the credit reference agencies - Callcredit, Equifax and Experian - have been working together and with the bank and with other data providers to make sure as far as possible that people's credit reports are not affected by the recent technical issues. But you can't guarantee it and therefore it's really important that consumers, people look at their credit reports over the next few months and if they see anything that looks like a late payment that shouldn't be there, they highlight it.

LEWIS: And of course when you do go to look at your credit report, you're often invited to pay money for that; and indeed with two of the agencies you have to pay at least £2. Ulster Bank says that from August customers can have a free credit check in Northern Ireland. Has that been agreed for all RBS and NatWest customers as well?

ILUBE: The situation in the UK is a little bit different because Callcredit already offers a free for life credit report proposition called Noddle, which anyone can sign up to today and see their credit report. We have been talking to RBS and we've got a number of proposals that they're reviewing which are subject to approval and, as we've explained to them, we'll do everything we can to help.

LEWIS: And of course we hope that if people do spend money on a credit report, they'll get it back from the bank if they had to do that. When should people check though because this could take quite a while, couldn't it, to show up on your credit record?

ILUBE: The way that it works is that the lenders will provide files at the end of the month. They will get updated onto credit files, so you would see the impact in July or

August or September, so over the next 3 months really. If you look today, you wouldn't necessarily see anything, but July, August, September.

LEWIS: That's the problem though, isn't it - people will see their bank accounts back to normal, let's hope it is next week, and they'll think problem solved; but in fact they've got to keep vigilant on their credit record for some considerable time after that?

ILUBE: Absolutely. And in fact in any case people should keep an eye on their credit record, but certainly over the next sort of 3, 4 months people should have a look.

LEWIS: Tom Ilube of Callcredit, thanks. And many branches of the banks are opening in Great Britain until 4pm today and 3pm in Northern Ireland today, and in Northern Ireland some tomorrow morning. Check the banks' websites. You can also get free helpline numbers from our website: bbc.co.uk/moneybox.

The chairman of a key consumer body has called for major changes in the way banks deal with customers where there's a suspicion of fraudulent activity on an account. Adam Phillips, who chairs the Financial Services Authority's Consumer Panel, says current practices are "Kafkaesque". His word. Money Box first highlighted this issue in November. Bob Howard reports.

HOWARD: Of all the accounts we've heard since we reported on this in November, the case of Fred, a 20 year old student, stands out for reasons which will become clear. In December he was on holiday in France when he received a call on his mobile. Fred didn't want his voice broadcast, so his words are spoken by one of the Money Box team.

FRED: (*spoken by one of Money Box team*) It was from a man who said he was from NatWest. He said cheques had been paid into my account in error. He said I should leave the money alone and correcting balances would appear and the money

would move out of my account.

HOWARD: Fred assumed it was being sorted out, but when he returned home his NatWest debit card was swallowed by an ATM. When he contacted his bank, he was told his account was being closed.

FRED: (*spoken by one of Money Box team*) I was told they were closing my account in front of the whole bank. I was made to go to the counter and clear my account in cash. You feel like a criminal when you're marched over and marched out the door without being given any reason as to why your account is being closed.

HOWARD: Things then got even worse for Fred. The fraud prevention service CIFAS told him that beside his name was now an entry submitted by NatWest which said he had committed first party fraud, which it described as the "fraudulent misuse of a bank account". Fred had no idea how this flag could have appeared, and as he could no longer access his bank statements, it was impossible to find out. When he went again to his local NatWest branch to demand to see a list of transactions on his account, he saw that payments totalling around £9,000, which he knew nothing about, had been paid in. So he wrote to NatWest's fraud department saying the money had nothing to do with him and urging staff to investigate and clear his name. In January he received a reply.

NATWEST REPLY: I have thoroughly investigated your complaint and, following a review of your case, I can confirm that our decision to close your account remains the same. I cannot enter into further correspondence with you on this matter.

HOWARD: Fred was now beginning to feel desperate.

FRED: (*spoken by one of Money Box team*) I was labelled a fraudster. We had nowhere to go. The way you're treated is guilty until proven innocent.

HOWARD: Fred then remembered the mysterious call he had received in France about payments made in error into his account. Turning detective, Fred's dad tried to discover who had made the call by looking at the log of received calls recorded on his son's mobile phone, and Fred says he managed to trace the number back to an Oxford branch of NatWest. Finally when Fred contacted the branch about the call, staff admitted that somebody in the bank had mistakenly paid in eight cheques totalling £9,000. The branch seems to have been completely oblivious of the consequences, but staff there immediately promised to contact their colleagues in the bank's fraud department to sort things out. Even then, it took a week for NatWest's head office to admit its error and reopen the account. Fred thinks the way he was treated by his bank was inexcusable.

FRED: *(spoken by one of Money Box team)* They hadn't even contacted the branch where this alleged fraud had occurred. They didn't allow me any right of reply. They had no interest in allowing you to prove your innocence.

HOWARD: And it wasn't just Fred's NatWest account which was closed. HSBC also closed his current account after it saw the fraud flag. And when Fred tried to open an account with Barclays, so he had some banking facilities, within a few weeks that was closed for the same reason. NatWest would not be interviewed, but it did send a statement.

NATWEST STATEMENT: The branch made an error and paid in cheques to the customer's account. We did not pick this up in the first complaint. However, after he challenged the response to the initial complaint, we picked up the error, overturned the decision, and removed all credit default markers. The customer was also offered £1,000, as well as reimbursement costs of £75.

HOWARD: Since we first started covering this issue in November when we described that 6 month old baby girl's account being closed, we have heard similar cases from customers of most of the big high street banks. One concerned a 19 year old female student who'd been banking with Halifax until her account was abruptly

closed following an incorrect allegation of fraud last month. After Money Box took up her case, the bank apologised, reactivated her account and paid her £150.

LEWIS: Bob Howard. Well I told that rather alarming story to Adam Phillips. He's the Chair of the Consumer Panel which advises the Financial Services Authority. And I asked him whether banks who suspected fraud were still required to treat their customers fairly.

PHILLIPS: They are, but they also have a responsibility under the Money Laundering Directive to report suspected fraud. So any significant amount of money - and we're talking £5,000 to £10,000 here - which is paid into your account unusually will cause the bank to have to form a view about whether they should report it. So there is a conflict between the principle of treating customers fairly and the potential for a criminal act to have taken place.

LEWIS: This is a quite extraordinary case. How do you react to what you've heard?

PHILLIPS: I have to say the more that we've investigated, the more it appears to place you in a very Kafkaesque situation. You cannot find out what you're accused of, you cannot plead your case, and you find yourself unable to open a bank account and with nothing that can be done about it. What is happening goes absolutely against the rules of natural justice. I mean the fact that you can have your access to financial transactional services withdrawn and you have no appeal, no-one will tell you why it's happened, in a modern society makes it very difficult for you to function.

LEWIS: When the banks close accounts on grounds of fraud, they tell people they have twenty days to find other banking facilities, yet the bank knows they won't find them because there is a fraud flag by their name. That is disingenuous, isn't it?

PHILLIPS: I think it is. The difficulty here is tipping off someone who may be engaged in criminal activity that they're under suspicion. There is a very rigid

approach that the banks have to adopt in telling people why they've closed their account. This is where the nonsense really occurs. If somebody is doing something genuinely criminal, then it is in fact going to alert them to the fact that they're under suspicion when their account is closed. So my assumption is that if there is real criminal activity going on, the banks will keep the account open so that they can observe the transactions. So these people who have had their accounts closed seem to me to be likely to be believed to be innocent by most people, including the banks.

LEWIS: What changes do we need?

PHILLIPS: Something has to be done to allow these people to appeal. There has to be a discussion about an appropriate appeals procedure through CIFAS to establish whether or not the reporting is fair and whether it can be lifted.

LEWIS: Alan Phillips, Chair of the Financial Services Consumer Panel. And there are links to CIFAS, the fraud body, on our website.

If you're going abroad this summer and hope to use up some foreign currency left on a prepaid currency card, you could be in for a shock. Money Box listener Kate from Poole bought her Cash Passport prepaid card in 2009 and used it on holiday. She had 58 euros left on it, so she put the card in a drawer to use for her next trip to Europe. That was this year, and with an expiry date on the card of 2012, she thought it would be okay.

KATE: However, when I went to cash it in a few weeks ago, they told me there was no money left on the card because, apparently, there is an inactivity fee. If you don't use the card for 12 months, they charge you each month after that 3 euros. Consequently the euros on my card had run out with this monthly charge and there was nothing left on it.

LEWIS: Access Prepaid Worldwide, which manages the Cash Passport, justified the

fees to Money Box saying they represent the costs incurred in managing cardholders' accounts. Then after Kate complained rather strongly that the charges weren't made clear to her, she did get her money back. Well live now to Northampton to talk to Amit Sharma who's Chief Executive of Prepaid365.com, a comparison website for prepaid cards. Amit Sharma, how common are these inactivity fees?

SHARMA: Well you've got to think that strictly speaking there's always a cost to the card provider to maintain the cardholder's account, so the fee in itself is not unjustifiable. I think the question really is that whilst the fee is not unreasonable, is 3 euro per month really a reasonable fee?

LEWIS: Yes, I mean not all of them charge. Some of them don't charge anything, do they?

SHARMA: That's true, that's absolutely true.

LEWIS: Yes. And you can't really see how keeping a card in a drawer is really costing them any money. If you go out and use it once, then the fee is waived. You'd think that would cost more than keeping it in a drawer for your next holiday.

SHARMA: I think the problem is that card providers always have to pay their own suppliers irrespective of whether the card is actually used or not, so I think that's where the fee comes from.

LEWIS: When I was looking through the terms and conditions of a number of popular cards this morning, there are a lot of fees, aren't there? I counted more than twenty on one card, terms and conditions. You pay to open an account, to load money, pay when you spend it, when you take cash out. You pay these inactivity fees and then if you get fed up and close it, you can pay again. It's quite hard to avoid them, isn't it?

SHARMA: Absolutely. My opinion is that any fee that is significant should be mentioned clearly to consumers right at the outset in underlying features and benefits of any product. Significant fees need to be treated exactly the same.

LEWIS: Yes. And of course in the case of Kate, she did complain because it wasn't on the ... It was in the terms and conditions, but not on the easy piece of paper that she was given, and that's now been changed, I believe. But given that there are so many and such a wide choice, how do you choose a card that will suit you where you can minimise the cost because they don't all charge you for all those things I mentioned?

SHARMA: That's correct. I think the important thing is to understand what you are going to use the card for. You know people use cards on long trips, you know gap year travel, and on short trips. I think once you've identified your need, that's when you need to identify which costs actually apply to you and which don't.

LEWIS: And look for the cheapest card or the one most suitable. Amit Sharma, thanks very much. And there's a good guide to spending money abroad on Moneysavingexpert.com, which I was also reading earlier today.

But that's it for today. More on our website, bbc.co.uk/moneybox, including have your say on those prepaid foreign currency cards. Some of you already are. I'm back on Wednesday with Money Box Live taking your questions on tax and tax credits. Money Box is back with me as usual next weekend. And just time to say that our very own Bob Howard, who you heard earlier, won the top journalist of the year award this week from the British Insurance Brokers' Association for his Money Box reports. Well done, Bob. Today the reporter was Fiona Woods, the producer Lesley McAlpine. I'm Paul Lewis.