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**MONEY BOX**

**Presenter: PAUL LEWIS**

**TRANSMISSION: 7th APRIL 2012 12.00-12.30 RADIO 4**

**LEWIS:** Hello. In today's programme, money for nothing: we leave a quarter of a billion pounds unspent on gift cards, a nice little earner for high street shops. Millions of us could become mortgage prisoners as lending rules tighten and loan deals come to an end. Changes in the law may help ex-offenders get insurance. And contracting out of SERPS into a personal pension ends, and there's more choice about using your pension pot.

But first, gift vouchers, and their more modern plastic equivalent, gift cards, are often seen as the perfect present when you just don't quite know what to buy a relative or friend for Christmas or a birthday or indeed for a fat free Easter. It's a huge industry worth more than £4 billion a year in the UK, but some Money Box listeners have been telling us their problems with cards and vouchers when they try to use them. Reporter Ben Carter's been looking into it.

**CARTER:** Yes Paul, a number of listeners have contacted us in the last few months to express concerns over the use of gift cards. There are two key areas of concern. The first is what happens to the gift card if the company goes into administration, a fate that recently befell Habitat and La Senza. Under insolvency law, when a company goes into administration the terms and conditions of gift cards can be revised. In most circumstances this means they will no longer be accepted. And last week video games company Game went into administration after a huge drop in its share price. Money

Box listener Phil Barrett took his son into a branch of Game Station, which is part of the Game Group, to use a gift card he'd been given by his grandfather.

**BARRETT:** My son's grandfather purchased a Game Station gift card for him in a high street store. Now we didn't use it immediately because he was waiting for the release of a particular game. So I think it was about 2 months went by and we went into the local high street store in Exeter and we tried to use the card there but were told by a member of staff that they wouldn't accept it because the company were in administration. So it was a very disappointing consumer experience really.

**LEWIS:** And, Ben, you've got some good news for Phil's son and other Game customers?

**CARTER:** Yes. On Monday, Game's administrators announced it had reached a deal to sell 333 of its branches to private investment company OpCapita. Now OpCapita have sent me a statement saying that the Game loyalty scheme and gift cards were suspended by the administrator last week, but business is now under new ownership and customers can now use them as normal.

**LEWIS:** And Ben, where a company isn't rescued, can people who bought vouchers on their credit card claim a refund under Section 75 of the Consumer Credit Act?

**CARTER:** They can, but only if the purchase was more than £100, which in a lot of cases it won't be. People can also try using the chargeback system where your bank tries to get money back from the company's bank account. But, unlike Section 75, that's not legally binding, and with companies in administration there may well not be any money in that account to refund to affected customers.

**LEWIS:** It's not just the risk of administration though, is it, that's been upsetting gift card holders?

**CARTER:** No it's not. Another listener, Mick Wannall, contacted us to express his frustrations.

**READING: EMAIL FROM MICK WANNALL:** Why do WH Smith gift cards time out after 2 years? Why is this not made clearer? It's point six of the small print. When I tried to use it, I was told it was empty. In fact it had only timed out. There was unspent money. When I called WH Smith, they told me exactly when the card was last used and how much money was left, but that I couldn't get it back as the card had not been used for 2 years.

**CARTER:** Well that was an email from Money Box listener Mick Wannall ending Ben Carter's report. And I'm happy to say that after persisting with WH Smith, Mick eventually did get a refund of his £36. He still thinks though that retailers could be clearer about expiry dates. Well there is inevitably a UK Gift Card and Vouchers Association and I asked its Director General, Andrew Johnson, why gift cards did expire.

**JOHNSON:** For a retailer, a gift card and gift voucher remains a liability on their books, if you like. So from a financial perspective, at some point it makes good financial sense and practice to remove that liability from your books.

**LEWIS:** Yes I can see that, but when we used to have book tokens and gift vouchers, they didn't have expiry dates. It's only really since they've gone onto plastic cards that we've had them, isn't it?

**JOHNSON:** Some gift vouchers did have expiry dates and that has moved into gift cards, though the majority of people who receive gift cards and gift vouchers will spend within the first 3 to 6 months.

**LEWIS:** Yes but if they don't, they can lose the money. How much is lost on them?

**JOHNSON:** As an industry average, about 6% of the total value of a gift card is never spent. And that can be a mixture of small pieces of change that's perhaps left on the gift card or in some cases where the person who's received the gift card didn't spend any of the value.

**LEWIS:** Yes 6% of £4 billion, that's 240 million quid. That's a nice little earner really, isn't it?

**JOHNSON:** It is from a retail perspective, but of course most people that spend a gift card or gift voucher in a retail store will on average spend another 40%. So from a retailer's perspective, they'd much rather you were in the store spending the value on the gift card because you're likely to spend more money. And in lots of cases you may like a particular brand. You then buy that gift card for a friend who isn't so familiar with that brand. So gift cards are a good way of introducing a new customer to a retailer, so they really do want you to spend.

**LEWIS:** Sure, but they're all positive. They're all ways they make money out of them. What I'm saying is there's another way they make money, which is the ones that languish in the back of a drawer until you look at it and you're told you know I can't spend this anymore because 12 months have passed.

**JOHNSON:** That situation does happen. On average the expiry on a gift card or gift voucher would be at least 2 years, so where as I say the majority of people are spending within the first 6 months, you know that's 18 months of extra time if you like.

**LEWIS:** Andrew Johnson representing the gift card industry. Well I have to say we've been getting a lot of emails about this this morning and reporter Phil Kemp's been looking at them. Phil, what have people been saying?

**KEMP:** Well Laura's written in to say that it's never been pointed out to her that gift cards have an expiry date when she's bought them. She thinks they should record the date on the card itself. And that's right because although gift cards will say in their terms and conditions that they have to be used within 2 years of purchase, what it often doesn't remind you is exactly when the card was bought, so it's hard to know when that expiry date actually falls. And Colin's also emailed to say he doesn't understand why cards should be allowed to have an expiry date given that the store's already taken money for it. He says they wouldn't refuse a bank note if it's over 2 years old, so why it should be any different for a gift card? And Colin's quite right that the retailer has obviously taken cash in exchange for the card, but that effectively makes it a credit note which sits on the company's books as a liability until it's spent and, as we heard, the industry obviously takes a view that it's reasonable to write off that liability typically after 2 years.

**LEWIS:** Thanks Phil. But I suppose it's not all bad news. Susan emailed to say her daughter was told she couldn't use some Oasis gift vouchers because they were 2 months over their expiry date. Susan then emailed the company and within half an hour Oasis said if she sent the gift card in, it would issue a new one, which it did. So even if you do find your gift card has expired, it's still worth taking it up with the retailer. It may still honour it.

Now millions of homeowners could be trapped in a poor mortgage deal as lenders are told to tighten up their lending rules. That makes it difficult or impossible for them to remortgage when their current deal comes to an end. They can be left stuck on the lender's standard deal, which could seem very expensive if the standard variable rate, as it's called, goes up. The Financial Services Authority wants to tighten up lending rules further, but its own consumer panel warned this week that could leave even more people in trouble. We'll hear from Adam Phillips, the panel's Chairman, in a moment. But first I asked Ray Boulger, Senior Technical Manager of brokers John Charcol, which borrowers could be trapped.

**BOULGER:** The people who will be most at risk are those who took out mortgages prior to the credit crunch, say before 2008, and so if those people took out for example a 5 year fix, they'll be coming to the end of that now. Also because of the way lenders have changed their criteria on interest only recently, the 25% or so of borrowers who have an interest only mortgage will find it in most cases extremely difficult to remortgage. So we are seeing an increasing number of mortgage prisoners and I think that situation's only going to get worse.

**LEWIS:** Adam Phillips, when we talk of "mortgage prisoners", these are people who are trapped with their existing lender, but is there any danger that they simply won't be able to get a loan at all or will they always be allowed to carry on, albeit on worse terms?

**PHILLIPS:** As far as the FSA's concerned, they will be able to look around for mortgages. The question will be whether other lenders regard them as a good risk, and in the case of the mortgage market review there will be some quite clear proposals about how affordability has to be assessed. And although they may be able to pay their mortgage and they may even be able to afford the standard variable rate, they won't be able to change their mortgage provider, and therefore there's a risk that people providing the standard variable rate will allow those rates to rise.

**LEWIS:** And of course they are rising slightly, aren't they, Ray Boulger? I mean Halifax, Clydesdale and Yorkshire, Bank of Ireland, RBS, Co-op, they've all put a small amount on their standard variable rates because of the growing cost (they tell us) of borrowing money themselves?

**BOUGLER:** That's right, we've seen about half a dozen lenders increase their standard variable rate so far. I think the top six lenders who between them have got the lion's share of the market are unlikely to make any further changes, but there will be some people at risk of seeing their standard variable rate go up, particularly I think those who are with a lender that is no longer lending.

**LEWIS:** Adam Phillips, do you think there's a danger customers are not being treated fairly by lenders because they are, as you call them, “prisoners”?

**PHILLIPS:** I think there is a real risk of this happening. Most of the contracts that people will have signed when they took out their mortgage gives the mortgage provider the freedom to raise interest rates in the circumstances that the money’s costing them more to get hold of and, therefore, people who cannot get a mortgage from another provider who are on the standard variable rate will find themselves having to pay whatever interest rate their provider decides is reasonable. We think that the FSA should put in place a rule which ensures that those interest rates are fair.

**LEWIS:** Ray Boulger?

**BOULGER:** That’s not the only choice. That is certainly the default option, but many lenders will offer their existing customers a product transfer which will allow them to switch onto another fixed rate. The problem is that for those customers who’ve got little equity and for whom the lenders therefore know they would find it difficult if not impossible to move, they will tend to offer not very attractive deals. So I think that’s the area where I absolutely agree with the criticism from the financial services panel.

**PHILLIPS:** We’d like a rule in place which would ensure that standard variable rates are set at a fair level, and probably the best way to do that is to relate it to the average interest rate that the firm is charging.

**LEWIS:** Yes. And I must say although variable rates have gone up, they haven’t gone up hugely, have they? I suppose your concern is they might go up more to if you like take money off the trapped people and then be able to offer much better deals for new customers. Is that a danger, Ray Boulger?

**BOULGER:** Well the markets always work like that, and not just in the mortgage industry. But at the moment because lenders actually have got very limited amounts of money to lend, we're seeing less and less competition in the new business market, and when it comes to trying to set an average rate, I think that gets very difficult. The cheapest standard variable rates on the market are below 4%. The most expensive are above 6%. And lenders' funding costs and other factors will influence where they place their SVR, so I think to try and impose an average rate on lenders would be really difficult.

**PHILLIPS:** I think we have to have a fair balance here. It's not in anybody's interest to have a lot of people repossessed if they can afford to pay a reasonable interest rate, so it's important that the standard variable rates don't rise too high.

**LEWIS:** Where is the balance, Ray Boulger?

**BOULGER:** Yeah well the situation for new borrowers has actually got a bit less bad because we are seeing, and have seen over the last 6 to 12 months, more lenders offering mortgages up to 90% and even a few at 95%. The other sector of the market where I'm particularly concerned in terms of mortgage prisoners are those people who are getting towards the end of their working life, perhaps in their 50s; they've got an interest only mortgage which they want to port. Because of lenders' very tight criteria on interest only, we're finding lots of borrowers who would like to port their mortgage, even sometimes when they want to reduce the size of the mortgage, and lenders won't allow them to because they can no longer meet the interest only criteria. I think that's a particular area where the FSA needs to take attention.

**LEWIS:** So Adam Phillips, interest only is perhaps the big … I mean it's been called the mortgage time bomb, hasn't it - the problem that's going to be faced by people coming to the end of those?

**PHILLIPS:** Yes and nobody has a very good idea of what the scale of that is. We'd certainly like the FSA to do more work in this area and to help the market adjust those people in some way.

**LEWIS:** And Adam, in a word, what's the one change you would like to see?

**PHILLIPS:** A rule brought in to treat customers fairly who are on the standard variable rate.

**LEWIS:** Adam Phillips of the Financial Services Consumer Panel, and earlier Ray Boulger of John Charcol.

Changes in what we have to reveal when we apply for insurance are due to come into force over the next 12 months. Under current law, which goes back more than 100 years, anyone applying for insurance has a duty to disclose "all material facts", even things the insurance company doesn't specifically ask a question about. And one thing that's always a material fact is having a criminal conviction. That can stop the millions of people with a criminal record struggling even to insure their car, like this listener who emailed us.

**EMAIL FROM LISTENER:** I accept that I did wrong and I've been punished by a suspended prison sentence, but I had no idea that I would also lose all my insurances. I'm now finding it extremely difficult to find any companies who offer the policies I want, even at a higher premium. And though I can understand individuals being critical of what I did, I can't see why companies can argue that their risk is increased.

**LEWIS:** Well that's a question I think for Christopher Stacey from the reformed offenders charity Unlock. He told me he doesn't understand why insurers take a criminal record of any sort as a reason to refuse insurance.

**STACEY:** I can certainly see the argument that some unspent convictions are relevant to some insurance. But I think the current blanket approach is less to do with insurers not wanting to insure them because they think they're too high a risk; it's more that they don't have the systems in place to properly risk assess.

**LEWIS:** So what are the changes that are coming in?

**STACEY:** There's two sets of changes. The first in regard to insurance law is that the Government have recently passed the Consumer Insurance (Discloser and Representations) Act. That basically abolishes the duty to volunteer information and rather you only have to answer the questions that are put to you by an insurer. You have to answer them honestly and reasonably and to the best of your knowledge.

**LEWIS:** Doesn't that mean though that when this comes into force insurers will simply change their questions, so they will all include questions now about unspent convictions?

**STACEY:** We certainly hope not. We've made contact with many insurers over the years and certainly it will remain the case that for buildings and contents insurance people with unspent convictions won't be able to get cover because those companies are already asking questions anyway. The particular area that this change relates to is in motor insurance and non-motoring convictions. Now you're absolutely right, it's perfectly possible for insurers just to ask questions about that. Our response to that would be that many motor insurers over the years have said to us look, we do not need to know about non-motoring convictions. Now once the law is clarified and you only have to answer the questions that are put to you, hopefully insurers will stand by their word as to how they've previously underwritten policies and not wanted to know about non-motoring convictions.

**LEWIS:** But on Money Box we've done many stories about people who do engage in false accidents and make false claims. Couldn't an insurer reasonably, seeing that someone that who had a conviction for example for deception, might well be more likely to make a false claim?

**STACEY:** They may well be entitled to think that. I don't believe that the evidence of people with convictions shows that that's the case. Those insurers that have insured people with convictions haven't experienced that at all. The other big change importantly is hopefully we'll see - and this isn't guaranteed yet, it's going through Parliament at the moment - but we'll hopefully see changes to the Rehabilitation of Offenders Act where the periods by which convictions become spent will be significantly reduced, much more in line with re-offending data. Now what that will mean is hopefully that people whose conviction previously will never become spent, some of those people will get the opportunity in the future to have their conviction become spent. We hope that that will be on the statute book and in force by hopefully the end of this year, which will make a big difference.

**LEWIS:** And so when your conviction is spent, if somebody says to me, "Have you ever been convicted of an offence?", you can lie and say, "No, I haven't" even though that's not true because it's spent and no-one can enquire into it?

**STACEY:** That's correct, yeah. If you look at insurance particularly, if an insurance company says to you, "Have you ever been convicted?" and your conviction is spent, you are legally entitled to say no. So it is a legal lie. In relation to employment, that's slightly different depending on whether the job is entitled to know about spent convictions. So jobs that involve CRB checks are usually entitled to ask about spent convictions as well.

**LEWIS:** Christopher Stacey from the Reformed Offenders charity Unlock. CRB, of course Criminal Records Bureau.

Big changes in pensions this week. They affect the millions of people who have ever opted out of the earnings related part of the state pension. They will have diverted some of their national insurance contributions to a private pension scheme instead of putting them into the State Earnings Related Pension Scheme, SERPS - more recently called State Second Pension or S2P. But there are concerns that the new rules will mean a surviving spouse could be left worse off. Tom McPhail is Head of Pension Research at Hargreaves Lansdown and he took me through the changes slowly from the top.

**McPHAIL:** Everybody still gets their basic state pension, but for people who were employed there was a second tier to their state pension - originally called SERPS, more recently called the State Second Pension or S2P. And employed people had the choice to opt out of that element of the state pension and instead of building up that element of the state pension they'd get a rebate from the Government, a lump sum cash paid into a private pension for them; and that private pension would build up in this pot and would provide a substitute, so they'd get that money instead of the state pension from the Government.

**LEWIS:** So the whole idea really (because it was started under the Thatcher Government, wasn't it) that you would in effect privatise part of the state pension?

**McPHAIL:** Exactly.

**LEWIS:** Did it work? Have people who contracted out from the start done well?

**McPHAIL:** We're not sure, Paul. Some people I think have done well. Some people have built up fairly substantial pots of money. And it's difficult to assess that because the Government keeps changing the rules, of course. So, for example, the age at which you can draw the state pension goes up, and then that means you lose a year or two of the state pension. I think for many people the contracted out pensions, some of them went into high charging personal pensions and they probably haven't delivered to expectation. So some have benefited, some have not, and with the changes in the state pension we're still not entirely sure who will have done best and who won't.

**LEWIS:** Well at least we don't have to argue about it anymore because no-one can do it anymore. What's going to happen to these pension pots they've stored up because there's some concern they're not going to buy as good a pension in future?

**McPHAIL:** That's right. So anyone who's been contracted out will have built up this private pot of money, and that will now be treated just the same as any other pension pot you've built up through your private savings. So where at the moment there is a distinction made and that contracted out money has to be kept separate and has specific rules applied to it in terms of how you draw the income from it at retirement - you have to provide for your spouse, you have to build inflation proofing into it - from 6th April those restrictions go, it's treated just like all your other pension money, and that gives you more freedom but it also means that those controls that were put in place to make sure you bought what the state would regard as the right income will no longer apply.

**LEWIS:** So of course if you inflation proof your private pension through an annuity, you get roughly half what you get if you don't inflation proof it initially. And if you provide for a spouse, then presumably you get even less, so the temptation will be to go for the bigger amount that doesn't provide for a spouse and isn't inflation proof?

**McPHAIL:** Absolutely and that's the worrying dimension to it. Because the majority of people do buy level annuities, they go for level income, generally they don't buy a spouse's pension that will continue after their death. Now if those buying decisions that wee currently see are mirrored with this contracted out money, then what we'll see is more people using more of their money to make what are perhaps short-term decisions that will provide the maximum income today when they first retire, but will have consequences further down the line when they lose out as a result of inflation or their spouses lose out when they die and the income stops.

**LEWIS:** And of course one decision people have to make, often long before they reach pension age, is what to do with a number of pension pots they've built up from a number of different employments - some of which they may not even know about without some research. Does this mean that you can now merge even these protected rights pots in with your other money, and the bigger the pot you finally end up with the better deal you can get?

**McPHAIL:** Absolutely and this is something the Government's picked up on and they're very keen to encourage us to consolidate our pension pots into one. So you have to watch out if you've got guarantees on pensions or if there are penalties for moving the money, but as far as possible yes it makes sense to put them all in one place. Much easier to manage, very often more efficient. You pay lower charges, you can take a more coherent view of your investment strategy. And of course when you get to retirement, you've got that one single pot of money with which to buy your retirement income.

**LEWIS:** Tom McPhail of Hargreaves Lansdown.

Now we've heard this week that it's the end of Yes Loans, which has featured on this programme a number of times. Sally Abrahams is here. Sally?

**ABRAHAMS:** Yes that's right. Yes Loans was a broker which found customers a loan. Money Box has reported on complaints about the company since 2009. Last month the Office of Fair Trading decided to revoke its consumer credit licence because of what the OFT called its "deceitful and oppressive practices." We heard this week that Yes Loans has decided not to appeal against that decision, so Yes Loans is no more.

**LEWIS:** And Sally, it may be easier from this week for older people to get car and travel insurance?

**ABRAHAMS:** Yes many firms won't insure you after a certain age either to drive a car or when you travel abroad. But a new agreement with the Association of British Insurers means that firms which do refuse you will have to pass you onto another company that will insure you or to the British Insurance Brokers Association who should be able to find one.

**LEWIS:** Thanks very much for that, Sally. And that's almost it, but I've just got time to talk about some of the emails we've been having. We had a very nice one from Margaret who says, 'I was given a £2 gift voucher for my 21st birthday from Boots in

- wait for it - 1971. Then she says she spent it only last year ‘in my local branch with no problem. They said they’d put it in their museum.’ That’s the difference of course between gift vouchers and plastic cards which do run out. There’s also an article that I’ve written on the BBC website about those gift cards. But that is it. There’s more on our website: bbc.co.uk/moneybox - podcast, listen again, send us your ideas which we love to see. Vincent Duggleby’s here on Wednesday with Money Box Live taking questions on saving and investing. Back with Money Box next weekend. From reporter Phil Kemp, producer Sally Abrahams, the whole Money Box team and me, Paul Lewis, have a good Easter.