

THIS TRANSCRIPT IS ISSUED ON THE UNDERSTANDING THAT IT IS TAKEN FROM A LIVE PROGRAMME AS IT WAS BROADCAST. THE NATURE OF LIVE BROADCASTING MEANS THAT NEITHER THE BBC NOR THE PARTICIPANTS IN THE PROGRAMME CAN GUARANTEE THE ACCURACY OF THE INFORMATION HERE.

MONEY BOX

Presenter: PAUL LEWIS

TRANSMISSION: 14th JULY 2012 12.00-12.30 RADIO 4

LEWIS: Hello. In today's programme, Money Box is told of a new deal to make flood insurance affordable, but is anyone safe from the record rainfall?

DHONAU: There's nobody that's not at risk of flooding, even people that live on top of a hill.

LEWIS: The Government unveils its plans to change the way we pay for care. Or does it? Bob Howard's here. He's been finding out whether victims of the Farepak collapse should be grateful or not.

HOWARD: Yes, they're getting 50 pence in the pound back, but should they be getting more?

LEWIS: And information at last about compensation for customers of RBS, NatWest and Ulster Bank.

But first, it's the middle of July and there are 15 flood warning and 57 flood alerts today. This month may well join April and June in being the wettest for the last 100 years. Some places are threatened with half a month's rain in a few hours this weekend. With downpours like that, flooding of course isn't far behind, but are

insurers being fair when they load some premiums based just on a postcode? David Richardson lives in Bridgnorth near the River Severn, but his house is on a hill 40 metres higher than the river. He's never been flooded, but he shares a postcode with people on the riverbank.

RICHARDSON: Unfortunately when I go each year to have my house and contents policy renewed, a lot of insurers, as soon as I mention my postcode, will not even quote because they use that form of discrimination, if you like, which is a very clumsy and blunt method of identifying what they think is houses within a flood risk area even when they're not. Some of the insurance companies based on exactly the same information will be going as high as £1300, such as RIAS. Zurich, they were £1125. In the end, I chose Barclays. They were under £200 for the house and contents insurance.

LEWIS: Even people in flood plains should be offered insurance by their own insurer under a deal done with the Government in 2004. But, as David has discovered, the cost and the excess - the amount you have to pay yourself if you claim - can be very high. Mary Dhonau, Chief Executive of Know Your Flood Risk, says getting affordable insurance has become much tougher.

DHONAU: Many people that have been flooded have found that their insurance has gone up hugely since say 2007; or people that are deemed at risk of flooding, they've found their insurance has gone up. And also they've had very large excesses, which is the bit you have to pay towards the flood repairs if you should be so unlucky to get flooded.

LEWIS: So they can get insurance, but it's often almost unaffordable and certainly would be if they were flooded?

DHONAU: Yes and that's why the availability and affordability of insurance, just a statement of principles, is no longer viable and it really has to have some kind of

shake-up. There's nobody that's not at risk of flooding, even people that live on top of a hill. They may well have a field behind them that's got potatoes in it and it rains hard and comes down annihilating their home. So the number of people that are at risk of flooding now and in the future is going to raise absolutely hugely, so never say that I'm not at risk of flooding because in my book I believe you are.

LEWIS: Mary Dhonau. Caroline Spelman, Secretary of State for Environment, Food and Rural Affairs, told Money Box she'd done the deal with the insurance industry, a levy on all home premiums, to keep flood insurance affordable for people like David.

SPELMAN: This industry levy would not add to your existing bill. That's part of the agreement - it's not additional to the bill. It would go into a pool to help the most flood affected properties. And I think we can see after the weeks of rain we've been through that it's very much of its time. And it will give confidence then to homeowners, but also to the industry, that we've found a way forward in perpetuity to ensure the availability and affordability of flood insurance.

LEWIS: And this levy will be how much on the insurance industry?

SPELMAN: Well at the mo... What I can give you as a guideline, the cross-subsidy that exists under the old scheme which expires next year is approximately £5 to £10 per premium.

LEWIS: But that's not going up, so that will be the same amount of money as they have now.

SPELMAN: Yes, but the avoidance of doubt that is not going to be added to people's premia.

LEWIS: So you call it a levy. How would it be a levy and not increase our bills?

SPELMAN: Because that's the agreement that we have with the insurance industry. New companies come into the market and cherry pick the easier to insure properties, leaving the harder to insure properties behind. And that is why I'm saying, I had to clear up this mess and find a way forward. The industry levy is something that ensures that all the insurers coming into the market have to make a contribution to that pool to help keep the insurance affordable.

LEWIS: Secretary of State Caroline Spelman. Well with me is Nick Starling, Director of General Insurance at the Association of British Insurers, the other party to those talks. Nick Starling, the deal that Caroline Spelman says you've done, will that put more money into a cross-subsidy for people in flood areas?

STARLING: Well we haven't signed on the deal yet, but what we've got, the prize we've got here is a new arrangement which will guarantee availability and affordability of flood insurance, and I think that will be to the benefit of everyone who needs to buy home insurance. As Mary Dhonau pointed out, everyone is at risk of flooding, even if you're on a hill, because of the surface water flooding we've seen this summer.

LEWIS: Yes because that's been a bigger problem than people living near rivers, I think, in many areas. But of course the point I was trying to make, get from Caroline Spelman, is that you say it's to everyone's advantage. Won't we all be paying more because somebody has to pay that extra money that's going to subsidise the people who are in flood areas?

STARLING: Well insurers pool risk already. That's how the system works and that happens in all sorts of circumstances. And remember too that insurance doesn't just cover flood; it covers all sorts of other things as well. But the key thing here is we've got a great opportunity to remove the market distortions. People who currently have flood cover are finding it more expensive and higher excesses, as Mary Dhonau pointed out, and this new system, this new approach which we're discussing with Government should sort out those problems so that people don't have those

difficulties and it means that they can have a more competitive market to operate in.

LEWIS: And does it mean that the companies that currently don't insure people in flood areas, they're going to have to pay a levy too to cross-subsidise the insurers that do insure people in flood areas?

STARLING: Yes, the principle of a levy system is you pay in ... It happens at the moment with motor insurance. The Motor Insurance Bureau, all insurers pay in and that covers uninsured driving. So the principle is already there and happening, and this is the detail we are discussing with Government at the moment.

LEWIS: And can you guarantee that we won't see our premiums go up? I mean you've already been putting them up - 7% last year, 12% the year before. Are they going to go up in 2012 and 2013?

STARLING: That depends on a whole number of factors, of course. We're seeing increasing flood risk. The Government's own climate change body indicated that flood risk could increase fourfold in the next decade.

LEWIS: So we could all end up paying for that?

STARLING: Of course. If flood risk is extremely high and if the costs go up, then premiums have to match that. But what we all want to see is first of all that flood risk mitigated through the building of flood defences and this new system which will spread the cost around the system.

LEWIS: Nick Starling, thanks. And we'll be reporting how this deal works of course over the next year or two, and Money Box Live takes your questions on floods and flooding on Wednesday at 3 p.m. here on Radio Four.

The Government's plans to reform the way that long-term care is paid for in England

were published this week. Well I say plans. A lot of the lengthy white paper published called Caring For Our Future is more a commitment to principles. The Government agrees that the total amount an individual has to spend on their care should be capped and it agrees that the means test which currently operates should be made more generous. But no figures are given and there are signs it wants to make changes on the cheap. Further options should be explored, it says, at a lower cost to the public. The one clear commitment was to a scheme to lend people money for care costs, recovering it after their death from the value of their home, but how new was that and where would the money come from? Live now to Cardiff to talk to Lisa Morgan, a partner in nursing care at solicitors Hugh James. Lisa Morgan, how new is this commitment to a deferred payment scheme?

MORGAN: It's not new. No-one should be forced to sell their home to pay for care. This principle has been around for a number of years. However, the current system doesn't pay interest. However, the new system that's proposed unfortunately is going to have interest which will accrue up to the period of the loan.

LEWIS: So in fact it will end up more expensive than what people can get now?

MORGAN: Yes, that's right, because currently interest does not accrue until 56 days or 8 weeks after someone has passed away.

LEWIS: People do say to me though that there are local authorities that although they're supposed to offer this deferred payment scheme now, they simply won't. That does cause difficulties and we do know many people feel they do have to sell their home.

MORGAN: Yeah and there's been obviously a lot of spin and ignorance over the last few days. I agree that local authorities will not provide information and there's a lack of public awareness. However, local authorities should provide deferred payment agreements and most recently they were warned in 2009 that if they refused it's likely

it would be found unlawful by the courts.

LEWIS: But don't they do that because they don't have enough money? And that comes to the heart of this problem: the Government hasn't told us how much more it's going to give to have this national universal deferred payment scheme.

MORGAN: Yes and I think that's why it's very disappointing, the announcement over the last few days. I think it's a missed opportunity. It's agreed by everyone that the system that we currently have is unfair and it needs radical reform. However, steps haven't been undertaken. But if any advice that I give to an individual, is if someone has to go into a care home, they should ask for a deferred payment agreement. A detailed rationale should be given if that's refused, and they can go through the complaints procedure.

LEWIS: And of course some people can get it paid free without a means test by the NHS, which is your speciality.

MORGAN: Yes of course, if you're the NHS's responsibility, if your primary need is a health need, the NHS pay the full cost of that care regardless of your ability to pay.

LEWIS: Lisa Morgan, thanks. And I should say the rules are slightly different in England, Wales and Scotland and Northern Ireland.

Well as we've heard, the value of an empty home can be taken now after you die and would be in the future, though the proposed cap would at least mean that some of the value remained however long you're in care. But these plans have been called a "death tax" by the National Pensioners Convention, and its General Secretary Dot Gibson is with me. Dot Gibson, these new plans, they're no different from the present, as we heard really, are they?

GIBSON: No, they're no different. Over the last 14 years, we've had 20

commissions, inquiries, papers, which we've all been asked to take part in the consultation, and every single one of them has come out with a system that is not fit for purpose and this doesn't do anything to allay that problem.

LEWIS: It would at least though mean there was a cap on how much you had to pay. I mean it's not clear what that cap would be, but there is a cap.

GIBSON: *(over)* Well you know what cap? I mean if you're talking about flood risk and everybody paying in the last item, then what about everybody paying for the future care of older people? That's what the welfare state does, that's what the NHS does, and I think that this is what we should have - a care service ...

LEWIS: *(over)* So you think even people with a valuable house or flat that's empty ...

GIBSON: Yeah.

LEWIS: ... should get their care free?

GIBSON: I don't know whether it's empty. It's available for their grandchildren and children, yes.

LEWIS: Well also with us is Angus Hanton. He's Co-Founder of the Intergenerational Foundation. Angus, you think every generation should pay its own way.

HANTON: I do, Paul. And it's far from obvious to me and particularly to young people why this cap should be imposed because what it does is it protects older people's assets. And they've had such an easy ride relatively of it economically and it protects their assets and people say why should it if the cost of that protection is being borne by younger generations?

LEWIS: You say they've had an easy ride and I know that the young generation often think you know they could buy their own home, they didn't suffer as we've suffered from lack of employment. But if you talk to people of that generation, they don't think that at all. Dot, you don't think you've had an easy ride, do you?

GIBSON: No, definitely not. In any case, I suppose he thinks that Prince Charles should start all over again and that all the assets of the Queen should go. I mean we're talking about ...

LEWIS: Well he might do. I don't know. (*laughs*)

GIBSON: Yeah, I don't know. We're talking about ordinary people who've worked and saved and built their homes and it's not fair.

HANTON: Ah, but that's a myth.

GIBSON: It isn't a myth.

HANTON: Because most, lots of the value comes from a windfall gain. Most house values are far more than the house cost, so it's not at all obvious why that shouldn't be used towards paying for elderly care. And you may say well if you're going to have a cap to protect the older generation as a group from the costs of social care, that that could be paid for by reducing some of the current subsidies that the older generation get such as the universal benefits of winter fuel allowance, bus passes.

GIBSON: (*over*) Yes, we've had all this from ...

HANTON: (*over*) But also ...

GIBSON: (*over*) We've had all this from the MP in the last week. I've been on programmes ...

LEWIS: *(over)* Well that doesn't make it wrong, Dot. Answer the point.

GIBSON: But it is wrong because we're talking about a situation where if you look at older people, right, according to the Women's Royal Voluntary Service survey, after taking everything that is spent by the state on older people, 40 billion is gained by the state in the work that older people do in caring and voluntary services. So you know just don't shove these older people to one side. It's wrong.

HANTON: Well that work is very ...

GIBSON: *(over)* And we don't agree with being divided off from younger people too. We're all in this together.

LEWIS: Surely, Angus ... You're an intergenerational foundation. Surely you should agree generations supporting each other? Isn't that what it's all about?

HANTON: We strongly agree with generations supporting each other, but there's a terrific amount of subsidies that the older generation gets such as having higher personal allowances, not paying national insurance on earnings.

GIBSON: *(over)* That's been frozen, that's been frozen.

HANTON: Well it's been abolished for anyone who's about to retire.

LEWIS: Without going into that detail, I mean the point that Dot and others have made to me before is people who need care, they've paid tax, they've paid national insurance - often ...

GIBSON: *(over)* And they continue to pay.

LEWIS: ... often all their lives, and if they work they continue to pay tax.

GIBSON: No, no, not even if they work. If they get £10,500 a year, they pay tax.

LEWIS: They pay tax on their pension or whatever it is.

GIBSON: Yeah.

LEWIS: So they're paying tax. They are taxpayers as much as you are a taxpayer.

HANTON: But this doesn't take account of the enormous increase in costs that there will be for social care. I mean the Government reckon that costs will increase from 15 to 22 billion a year in the next few years, and it seems to us that there's a sort of social contract between the generations and that is being challenged when you start to pay ... Well partly it's challenged by longevity itself ...

GIBSON: Yeah ...

HANTON: ... and then it's also challenged when the Government continues to favour older generations at the expense of younger ones.

GIBSON: It's not true.

LEWIS: A final word, Dot.

GIBSON: We didn't have a social contract with the banks. We've bailed them out and it's wrong to use that against people and these austerity measures.

LEWIS: Angus, one ...

HANTON: I ...

LEWIS: He's lost for words. (*laughs*)

HANTON: I think younger people think that the cap that's being suggested is introducing a feudal system where people can only afford to buy a house if their parents had one.

LEWIS: Angus Hanton of the Intergenerational Foundation; Dot Gibson, National Pensioners Forum, that one will I'm sure run and run. National Pensioners Convention, I beg your pardon.

Now people who lost money as a result of the collapse of the Farepak's Christmas savings scheme have finally been told this week how much of their money they can expect to get back. The firm collapsed in 2006, leaving 114,000 people with total losses of £37 million. But at last they'll get something back, perhaps in time for Christmas this year. Bob Howard's been looking at the figures.

HOWARD: Yes, Paul. In 2006 customers received around £7 million from the Farepak Response Fund charity, so that's around 17 pence for every pound lost. Lloyds, which now owns HBOS, Farepak's banker, last week agreed to pay an extra £8 million to creditors on top of £2 million it had already paid out via the charity. That followed a High Court judge partially blaming its hard ball attitude for Farepak's collapse. Then this week the liquidator BDO announced it would pay creditors another £5.3 million from assets it had recovered from Farepak.

LEWIS: So what does that mean, Bob, for individuals who lost their Christmas savings?

HOWARD: Well the additional Lloyds money gives them another 9 pence in the pound, and the money from BDO gives them another 13 pence. That makes just under 50 pence in the pound in total. Now compared to what unsecured creditors normally get back, that's a relatively high payout. But some Farepak creditors have been

looking at the costs of the administration and liquidation of the firm. To October 2011, BDO has confirmed these stand at £8.2 million, so more money's been paid out for the costs of liquidation and administration than the Farepak creditors are going to receive from the company assets.

LEWIS: Thanks Bob. Well live now to Glasgow to talk to Louise McDaid. She's Chair of the Farepak Victims Committee who herself lost money in its collapse. Louise McDaid, are you pleased with 50 pence in the pound?

McDAID: I suppose we would accept the additional money obviously coming in from HBOS, which we see as a small victory, but overall I think what Bob was saying - the actual costs of the liquidation of over £8.2 million (and that was only up until last year, so we were expecting to be well over 9 million) to get 13 pence in the pound, I think is pretty scandalous.

LEWIS: The work of the administrator, the liquidator has to be paid for though. Without that work, you wouldn't have got back as much, would you?

McDAID: No, but only recently we received an email from Martha Thompson on the 28th saying that she was continuing to look at third parties and to try and ...

LEWIS: Martha Thompson being the liquidator?

McDAID: Yes. You know she was continuing to investigate the possibility of taking legal proceedings against third parties to try and recover more money. That was only a couple of weeks ago, Paul, on the 28th June, and all of a sudden that has stopped. We have been told that year after year, that they were intending to look towards taking legal proceedings against third parties, and you know ...

LEWIS: I mean that may be the directors or somebody, but of course they tried that and that was thrown out, wasn't it ...

McDAID: Yeah, yeah.

LEWIS: ... and that's really why you got the money from Lloyds, because of the judge's strong criticism? But legal action against third parties is always expensive and they have to make a judgement: is it worth spending more of what is your money in effect to try to get more from someone else who may not pay up?

McDAID: But only, like I said, on 28th June this year, we were told that they were still doing that, so all of a sudden last week we're told no longer that applies. So in the meantime, as you quite rightly said, they have been spending our money, which we estimate to be well over £9 million and we're only getting 13 pence back. So for me, it's a question of is that an easy statement to make so they can rack up their fee? You know from our perspective, we're definitely - we mentioned this to Vince Cable - we're certainly looking for some sort of inquiry into how Farepak, the administration and liquidation actually took place.

LEWIS: Well we'll have to wait and see what he says. Louise McDaid thanks very much. Well Mike Dailly is from the Govan Law Centre. I asked him how he reacted to the costs of the liquidation compared to what creditors received back.

DAILLY: There is actually quite minor control and oversight. The OFT did a market study in 2010 into this area and they found that in cases where you had big secure creditors like banks, they would put a lot of pressure on controlling the fees of insolvency practitioners. But in something like 40% of all cases across the UK, where you had small unsecured creditors, basically it was a free for all.

LEWIS: If a small creditor like the Farepak creditors think that the fees are too high, can they challenge them?

DAILLY: There is a right to challenge excessive fees if creditors with 10% or more of the value of the debt agree. Now that's a right to go to court. How can 114,000

small creditors, who are typically women on very low incomes, possibly afford to take anybody to court? So in reality there's no consumer friendly solution here and this is why the OFT recommended major change, and I have to say I think the OFT was absolutely right. And this is the problem: there is no real supervision and that's why the UK Government has to change the law here.

LEWIS: Mike Dailly from Govan Law Centre. Well we asked the liquidators BDO for an interview. It said no. So did the liquidator's professional body and the Insolvency Service. But Bob, you've got a statement from BDO.

HOWARD: Yes, BDO said it had been working to recover as much money as possible and its fees had been discounted and approved by the liquidation committee. And it said it's common for unsecured creditors to receive absolutely nothing, and that without it incurring costs there'd have been no money at all to distribute to creditors.

LEWIS: And, Bob, can the creditors hope to get money by this Christmas?

HOWARD: Well I think the hope is it will come by the end of August.

LEWIS: Thanks very much for that, Bob.

RBS and NatWest announced some details of the compensation scheme for customers and others affected by the computer problems which began on 20th June. Things are pretty much back to normal at those two banks now, but problems continued this week for customers of Ulster Bank. It now says things should be back to normal from Monday though there's still a question mark about cheques and cash paid in over the counter since June 20th. may still not be credited to accounts. So what compensation has been decided? Susan Allen is Director of Customer Services for the whole RBS Group. She told me about the type of losses they have been remedying.

ALLEN: So far we've had 33,000 complaints in and 94% of those have been resolved. So we've paid out for things so far as you know phone bills, perhaps they've had to pay a cab to get to the station, right through to for people who've been impacted with mortgages who paid hotel bills and extra removal costs, people may have broken a bond or may have had to take some money out and they'll have some penalties and so on. We've had to pay costs where people were stuck and needed to get flights and so on. So we have paid lots of different costs. So if people will come to us with details of the charges they've incurred and we can see clearly that it's a result of our failure, absolutely we will reimburse those costs. We've made a very clear commitment that nobody will be out of pocket and that includes those sort of situations such as ISAs. People should expect that we should resolve them within two days.

LEWIS: Well that was Susan Allen's promises. And she also told me that the bank would try to correct any damage to customers' credit reference files.

ALLEN: We've made sure that the data that'll go to the credit reference agencies has been corrected, so that nobody will be disadvantaged as a result of you know the operation of their account through the incident. So we've already done that and worked with the credit reference agencies. People you know may be impacted further down the chain and we want to make sure we put that right. We will make free searches available to everybody and we'll be writing to customers to let them know how they can get those.

LEWIS: Susan Allen of RBS. And there are more details, though not as many as you might want, on the bank's website. Let us know how you get on. That's it for today just about. More on our website as ever: bbc.co.uk/moneybox. You can read my newsletter, download the programme, send us your ideas, also have your say on flood insurance - many of you are, different views about how that should be sorted out. And, as I said, financial loss due to floods and weather is the topic for Money Box Live on Wednesday this week at 3 p.m. here on Radio Four. I'm back with Money Box next weekend. Today the reporter was Bob Howard, the producer Emma Rippon.

I'm Paul Lewis.