Citizens Advice Scotland

How do you think the poverty premium affects low income families?

The following are excerpts from Paying More to be Poor (Nov 2016: https://www.cas.org.uk/publications/paying-more-be-poor); this report resulted from CAS commissioned research, carried out by IPSOS Mori, exploring the impacts of the poverty premium in the consumer markets of energy, telecommunications and finance.

Overall, the poverty premium can exacerbate the effects of poverty felt by those on a low income. This is due to the fact that it can force those on a low income to cut back on expenditure, which can have adverse effects in myriad ways. In terms of our research, 8% of survey respondents overall reported cutting back on expenditure, with 15% of those on a low income reporting as having done so. Drilling down into the results revealed that 17% of those using a PPM for their energy cut back on expenditure as did 24% of those in arrears with a utility supplier.

Looking at what respondents reduced expenditure on revealed that nearly a third cut back in general and a quarter curbed their use of gas and/or electricity. More than one in five said they cut back on entertainment, something that could have a disproportionate impact on those already feeling socially isolated. Among those who had reduced expenditure, food was the top item that was cut back upon the most, with 43% saying they had done so.

10% of respondents to our research said their physical health had been negatively impacted as a result of being unable to pay their bills due to things like not eating or not eating well. This disproportionately affected those on a low income, with 20% of low income respondents saying their health suffered against just 2% of those in a high income bracket.

Beyond physical effects, impacts on mental health were also reported, with 19% of respondents saying they had experienced stress or anxiety as a result of not being able to afford their bills or repayments. However, these figures mask significant differences between economic groups. 30% of those on a low income said they had felt stress or anxiety, compared to just 5% on a high income. In particular, interview participants said their stress and anxiety levels reached their height towards the end of the month when money has been stretched to its limit.

What is the extent of the poverty premium, in which areas of service or goods provision does it exist, and why does it exist?

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Energy

While the poverty premium in the energy market can take different forms, it is most typically associated with the higher per unit costs of PPMs as compared to those on credit meters. Low income consumers on average pay more for their energy as a proportion of their total income than higher income consumers, further pressing home the point that regulators and suppliers must ensure any extra charges are appropriate and do not represent an undue burden on consumers.

Our research found that:

• 27% of those on a low income reported using more expensive PPMs compared with 12% of middle income and 1% of high income respondents.

• 20% of low income consumers – and 24% of those using PPMs – reported spending more than £100 per month on their energy bills.

• Qualitative interviews suggested that those using PPMs understood they were likely to be paying more for energy in the long run but believed this premium to be small.

• 24% of survey respondents reported having switched their energy supplier in the past three years. 14% of those with home internet access switched supplier compared with 10% who didn't have such access. Additionally, 24% of those living in the most deprived areas of the country were more likely to consider switching to be a hassle compared with 17% of those in the least deprived parts of the country.

• Qualitative interviews suggested that those who had negative experiences of switching energy supplier in many cases would not consider switching again. These problems commonly manifested themselves in unaffordable billing overlaps between old and new suppliers.

Telecommunications

Pay As You Go (PAYG) mobile phones have frequently been identified as a key culprit in low income consumer financial detriment. This is due to their generally higher per unit charges for voice, text and data services combined with the higher likelihood of low income consumers utilising PAYG payment options (http://stakeholders.ofcom.org.uk/binaries/research/consumer-experience/tce-13/TCE_Research_final.pdf). While declining in popularity overall, PAYG consumers continue to be paying more for pre-pay mobile phone tariffs, as the dominant providers in the market push deals offering better value for pay monthly or SIM-only plans (http://stakeholders.ofcom.org.uk/binaries/research/consumer-experience/tce-12/Consumer_Experience_Researc1.pdf). The usage and effect of PAYG payment plans is explored in more detail in the following section.

Our research found that:

• 47% of those on a low income reported using frequently more expensive Pay As You Go (PAYG) payment methods for their mobile compared with 21% of middle and 9% of high income earners. 26% of low income respondents said they spent more than £20 per month on mobile phone bills. This compares to an average monthly spend on mobile phones across the UK of £27 per month (http://www.ons.gov.uk/ons/rel/family-spending/family-spending/2015-edition/rft-a1.xls).

• 18% of low income respondents did not use internet, landlines and cable or satellite television compared to less than 1% of high earners.

• 69% of low earners reported using the internet at home, with 98% of those on a high income reporting using home internet.

• 98% of all respondents owned a mobile phone.

• 8% of respondents said they only owned a landline. Of this group 9% were on a low income, compared to 6% on higher incomes, which means they are at risk of financial detriment resulting from rising line rental prices.1

• Low income consumers were less likely to have switched telecoms providers in the last three years than their more affluent counterparts, with 31% saying they had done so compared to 39% on a high income

• Across income levels, 38% of those with internet access switched suppliers, compared to 26% that lacked such access.

Finance

The poverty premium comes in several forms within this market, such as, problems with the processes around credit scoring and how those with 'thin' or poor credit files – low income consumers who choose to manage their finances primarily with cash, for instance – may be inadvertently shut out of mainstream credit markets. An effect of this is to push low income consumers out of mainstream credit markets towards more expensive options e.g. payday loans
Furthermore, rent-to-own credit agreements can spread the cost of expensive white goods and other household items into manageable weekly payments which can make it an attractive option for those on a low income who seek to maximise financial flexibility. However, it has been found that a combination of extremely high interest rates and other bolt-on services can sometimes double the actual retail cost of many of these goods, which makes this an extremely expensive option when taking the full length of the contract into account (http://www.appgdebt.org/wp-content/uploads/2015/03/APPG-RTO-Inquiry-report-10-2-15.pdf).

Our research found that:

• 34% of low income consumers reported having used credit cards in the past year, compared with 80% on high income and 63% of middle income respondents. In addition, 53% of low income respondents said they were not using credit or loans at all, possibly indicating difficulty in accessing these products.

• 11% of low income respondents said they were paying over £100 per month towards their credit or loan products. Some interview participants said they took out a credit or loan product without understanding the full costs involved.

• Through qualitative interviews, it was found that respondents' past proxy experience with credit and debt was shown to influence their own attitudes towards credit and loan products.

• Some low earners in deprived areas were found to be paying similar amounts for motor and home contents insurance as high earners, possibly pointing to a premium being paid by low income consumers. Interviews revealed some low income consumers to be foregoing home contents insurance entirely due to cost.

What else could be done by local authorities, national government or public bodies to mitigate the situation?

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In order to address the poverty premium, suppliers and regulators in the energy, telecommunications, and finance sectors need to:

- Bring premiums down. The research found that low income consumers held differing attitudes towards the poverty premium, finding that some low income consumers were willing to pay a premium for certain payment methods and goods (if they offered flexibility, for instance). However, the research also found that some consumers were unaware about the true cost they may be paying, so these premiums should more accurately reflect the additional cost or risk incurred by the supplier to avoid undue detriment.

- Encourage suppliers to make their customer information and advice simpler; particularly advice relating to different energy tariffs and credit products. Consumers need to accurately assess whether or not they are on the best deal and be able to confidently compare offerings across suppliers. Suppliers and regulators should ensure that information is presented in an easy-to-understand and straightforward manner.

- Ensure information relating to different deals is made accessible for consumers without internet access at home, and promote awareness of alternative methods by which they can contact suppliers. The digital divide is still manifest across Scotland. The research found that low income respondents were less likely than those on a high income to have used an online comparison service to switch their suppliers meaning they may be less likely to benefit from cheaper deals. The same information and tariff options should therefore be made available to those who cannot access the information online.

- Encourage suppliers to more proactively offer support and payment plans to people experiencing financial difficulties. Customer service staff should be better trained to help improve their awareness of consumers in vulnerable financial situations and of those who may be at risk of such situations. More reference should be made to this vulnerability when going through the approval process for a credit or loan product and appropriate safeguards put in place for those deemed at risk of possible detriment.

Government, consumer organisations and third sector organisations could work together to:

- Raise awareness of the cost of premiums associated with particular payment methods or forms of credit. Stakeholders across these sectors could come together in a campaign against the poverty premium, using real life examples of its effects to put pressure on suppliers to alter those business practices causing financial detriment amongst low income consumers.

- Raise awareness of organisations that are available to help the public with financial difficulties generally, and problems relating to bills and credit payments. The research identified a gap whereby those who may benefit the most from information and advice may not be taking advantage of available help. More work needs to be done highlighting the work of citizens advice bureaux and other local and national advice providers.

• Support consumers without internet access at home and those who don't feel confident in using the internet or find it difficult to use online comparison sites. Stakeholders must ensure that those without an internet connection are supported and empowered to be active consumers in the market. Related to this, efforts should be made to get more people online and boost digital capabilities. This should be prioritised as digital proficiency and online access are two of the most crucial issues facing Scotland. Computers and the internet are increasingly the gateway for those wanting to fully exercise their power to be active consumers and it is crucial that as many people are online as possible and are supported to get online.

The research findings, in conjunction with CAS case evidence, also lead us to add the following recommendations:

• Companies, consumer organisations, regulators and the UK and Scottish governments should work together to empower consumers to more effectively alter their purchasing habits and vote with their feet by making the switching process easier. The switching process should be better coordinated between old and new suppliers to ensure that consumers avoid costly administrative issues like double billing. This would lead to more efficient and effective markets. The CMA endorsed Citizens Advice's energy price comparison website in its energy market review and the development of other non-transactional price comparison websites across sectors should be encouraged.

• Encourage partnership working between the Scottish government, local authorities and other interested stakeholders to deliver more Community Development Financial Institutions (CDFIs). Scotcash is currently one of the most successful CDFIs currently operating in the UK. Since opening, it has acted as a gateway to affordable financial products for those in need of such options. This CDFI model should be replicated where practicable across the country in order to provide a gateway to affordable finance to low income consumers. National and local government, consumer and business stakeholders should also work together to promote other models of affordable finance as well, such as peer-to-peer lending and credit unions.

• Supermarkets should work to help alleviate the effects of the poverty premium when shopping for food by exploring options to assist low income consumers. This could include extending delivery coverage areas, lower fees for placing orders close to one's desired delivery date and lower charges for small orders. Our research showed that the poverty premium can manifest itself in higher food prices if individuals aren't able to access multi-buy deals at supermarkets. It was also clear from our research that low income consumers were likely to cut back on their food expenditure when prioritising monthly spend, something that had consequent effects on their physical health and mental wellbeing. One way this can be alleviated is to expand and make more affordable grocery deliveries ordered online. Low income consumers who wish to do their shopping online to take advantage of money saving offers shouldn't be unduly penalised with higher fees and charges for certain delivery times, small baskets of food, or even excluded altogether depending on where they live.