All-Party Parliamentary Group (APPG) on Poverty 'Poverty premium inquiry'– written evidence from the Money Advice Trust

March 2018

1. Introduction

1.1. The Money Advice Trust welcomes this opportunity to contribute to the All-Party Parliamentary Group on Poverty's poverty premium inquiry.

1.2. Please note that we consent to public disclosure of this response.

2. About the Money Advice Trust

2.1. The Money Advice Trust is a charity founded in 1991 to help people across the UK tackle their debts and manage their money with confidence. The Trust's main activities are giving advice, supporting advisers and improving the UK's money and debt environment.

2.2. In 2017, our National Debtline and Business Debtline advisers provided help to more than 220,000 people by phone and webchat, with 1.5 million visits to our advice websites. In addition to these frontline services, our Wiseradviser service provides training to free-to-client advice organisations across the UK, and we have now delivered training and consultancy to more than 160 creditor organisations on identifying and supporting customers in vulnerable circumstances.

2.3. We use the intelligence and insight gained from these activities to improve the UK's money and debt environment by contributing to policy developments and public debate around these issues.

2.4. For more information about this response contact Matt Hartley, Money Advice Trust Head of Public Affairs, on 0207 653 3320 or matt.hartley@moneyadvicetrust.org.

3. Executive summary

3.1. In this response we present the context to the poverty premium that the APPG is focusing its (welcome) attention on, from our perspective as one of the UK's main debt charities – including rising household debt, squeezed incomes, a shift to non-credit defaults, the lack of affordable credit and the relationship between debt and financial exclusion.

3.2. We have focused our specific comments on the poverty premium on the specific areas of high cost credit, access to affordable credit and grants, energy issues, and the costs of enforcement (bailiff) action.

4. The context to the poverty premium

4.1. Household debt levels are growing significantly and while the current level of household debt is not generally considered as unsustainable in the macro-economic sense, our concern is with the micro-impact on the minority of households who are at or near financial difficulty.

4.2. Rising living costs and low wage growth have contributed to a severe squeeze on household budgets in recent years – and the risk is that if economic circumstances change, the precarious financial position of household budgets and higher levels of household debt will lead to a significant increase in debt problems.

4.3. Debt problems are already increasing significantly in the UK, with demand at National Debtline up 10% year-on-year in the first three quarters of 2017. Other advice agencies are experiencing similar trends. We expect demand for debt advice to continue to rise significantly in the years ahead.

4.4. The nature of debt problems is also changing, with significant increases in non-credit defaults including council tax, utility bills and arrears on other household bills. Problems with debts owed to the public sector are increasing, and so too is scrutiny of the debt collection practices of central and local government. The growth of self-employment in the UK and increasingly variable incomes has also had a significant impact on demand for advice, including on business related debts.

4.5. The Financial Conduct Authority (FCA) has taken a significant interest in problem debt since it took over responsibility for the consumer credit regulatory regime in 2014, and has engaged well with consumer groups and the money and debt advice sector. It has made particularly effective interventions on payday lending through the cost cap, and in improving the treatment of and outcomes for customers in vulnerable circumstances. This focus on problem debt is continuing through the regulator's work on the wider high cost credit market and Credit Card Market Study.

4.6. There remains a marked lack of affordable credit in the UK, and there is a need to improve support the credit union sector and access affordable credit more widely, including by looking to international examples such as Australia's Good Shepherd Scheme.

4.7. The effects of struggling with unmanageable debt can create new barriers to financial inclusion in the future. For example, finding yourself unable to keep up with credit commitments has a negative impact on your credit rating, which makes it harder to obtain credit in the future, and bankruptcy can make it difficult to open a bank account.

4.8. Conversely, financial exclusion can lead directly to financial difficulty and debt problems. For example, the poverty premium that many low income households pay[1] increases costs and pressure on already stretched budgets, a lack of access to affordable borrowing can lead to people turning to high cost credit or even illegal lenders and a lack of savings leaves consumers without a cushion to protect them from future income shocks.

4.9. We are concerned by the findings in the timely Citizens Advice report "Exploring how long-standing customers pay more for essential services."[1] This report contains useful recommendations for regulators in the essential markets which the FCA should consider. This looks at competition in essential markets including financial services and considers the effects of the "loyalty penalty" on often vulnerable consumers. The report states:

"Across a range of essential markets, time and time again, it is vulnerable people who are disproportionately stung. Older customers, those in lower income groups, and people without a university degree are more likely to face a loyalty penalty. And people with mental health problems are more likely to report difficulty accessing good deals. All of this is undermining faith in whether markets can deliver the right outcomes for consumers."

4.10. Given the breadth of issues that could be raised in relation to the poverty premium, we have concentrated our response in a few distinct areas: high cost credit, access to affordable credit and grants, energy issues, and the costs of enforcement.

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[1] University of Bristol Personal Finance Research Centre (2016), http://www.bristol.ac.uk/geography/research/pfrc/themes/finexc/poverty-premium/ and Joseph Rowntree Foundation https://www.jrf.org.uk/press/poverty-premium-new-fair-design-fund-aims-raise-20m

5. High cost consumer credit

5.1. Since responsibility for consumer credit regulation transferred from the Office of Fair Trading (OFT) in 2014, the Financial Conduct Authority (FCA) has taken a significant interest in problem debt. In particular, we welcomed the FCA's payday lending cost cap, which it has since concluded[2] delivered "substantial benefits to consumers".

5.2. We have seen a clear effect of the cap at National Debtline. The proportion of callers to National Debtline with at least one payday loan rose from just 3% in 2010 to a peak of 13% in 2013. The government's announcement of the cap in November 2013 led to significant exits form the market place in advance of it coming into effect in January 2015. Consequently the proportion of National Debtline callers with payday loan problems more than halved between 2013 and 2015, and has since remained at between 6% and 7%.

5.3. More recently, the FCA has been right to turn its attention[3] to the wider high cost credit market, including in the rent-to-own, home-collected credit and catalogue credit sectors. However, we must remember that while the FCA can regulate the supply of high cost credit, it cannot regulate away demand. Any further regulatory interventions must be carried out with reference to a detailed analysis of potential 'displacement effects' between different types of credit, so that likely changes in consumer behaviour as a result of, for example, widening the cost cap, are more fully understood.

5.4. We note the recent report from Citizens Advice on the effects of taking out credit where income is insecure. The Cost of Financial Insecurity[4] makes the point that "*With high rates of interest and expensive default charges, far from helping people to gain greater financial stability, credit products often punish people for insecurity."*

5.5. Financial regulators are also looking at unauthorised (and authorised) overdrafts, which have become a common feature of the debt problems that debt advice agencies like National Debtline help people to resolve. We support the specific measures that the Competition and Markets Authority (CMA) announced[5] in 2016 to benefit unarranged overdraft users, including a requirement on banks to send alerts to customers and informing them of a grace period to enable them to avoid charges.

5.6. It is vital that access to free cash points is maintained, particularly in the light of the current LINK plans which some in the industry say could lead to "ATM deserts where providers close down the least profitable ATMs, which are more likely to be in

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[2] FCA (2017), FS17/2: High-cost credit and review of high-cost short-term credit price cap, July 2017, link

[3] FCA (2017), Financial Conduct Authority sets out agenda and priorities for consumer credit, July 2017, link

[4] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/walking-on-thin-ice-the-cost-of-financial-insecurity/

[5] CMA (2016), Retail banking market investigation: Final report, August 2016, link

deprived areas.[6] Having to pay to withdraw cash is a clear example of the poverty premium in practice, where people run their lives using cash only. It is also important where people do not have direct debit or standing order facilities to spread the cost of bills. We note the Payment Systems Regulator has published their expectations as to the ATM network in response to the LINK plans.[7]

5.7. The CMA has also announced bank-set monthly caps on unauthorised overdraft charges, and some banks have ended these voluntarily[8]. Bank-set monthly caps are a welcome step in the right direction. However, we are pleased that the FCA has signalled that it may be prepared to step in with an industry-wide cap if significant reductions in charges paid by people in financial difficulty do not materialise.

5.8. Similarly, the FCA's Credit Card Market study and proposed remedies[9] have included a welcome focus on early intervention and the need to reduce persistent credit card debt. While we welcome this focus on early intervention, the FCA could go further in ensuring its proposed remedies are made as effective as possible in tackling this problem. In particular, 36 months remains too long for someone to be struggling under persistent credit card debt, and we continue to make the case for the time periods the FCA has set out in its plans to be reduced. We also hope that the door remains open to future increases in credit card minimum payment levels, to ensure that debts are paid down in a more reasonable period, would also like to see a simple and universally applicable method for people to opt out of credit card limit increases.

6. Access to affordable credit and grants

6.1. We believe the government could and should do more to support the growth of credit union lending as part of a strategy to improve access to affordable credit amongst low-income households. Building a more sustainable and modernised credit union sector is an important part of tackling financial exclusion, and that increased support – over and above the Department for Work and Pension's Credit Union Expansion Project[10] – should be a central component of the government's efforts in this area.

6.2. Beyond credit unions, in addressing the lack of affordable credit, the government should also look to examples of policy outside the UK. In Australia the Good Shepherd scheme[11] sees the National Australia Bank partner with the Australian Government to offer a range of shop-front community finance products such as Good Money and the No Interest Loan Scheme (NILS), as well as a StepUP scheme to provide low-interest loans to low-income households. NILS has been running for 35 years, with evaluations showing that four out of five clients experience economic

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6 https://www.theguardian.com/money/2017/nov/01/free-to-use-link-cash-machines-atm-deserts-uk

7 https://www.psr.org.uk/sites/default/files/media/PDF/Protecting%20Free%20to%20use%20ATMs.pdf
8 BBC News (2017), Lloyds Bank to abolish charges for unplanned overdrafts, July 2017, link
9 FCA (2017), Credit card market study: MS14/16, link
10 Gov.uk (2013), Credit Union £38m expansion deal signed, link
11 More information on the Good Shepherd scheme link

mobility and four out of five people stop using payday loans as a result. This model has been demonstrated to work very well for people on low incomes who need to access household goods and other financial services but are at risk of taking out high cost credit or missing household bills.

6.3. Similarly, the Irish Government has partnered with the country's strong credit union sector and the wider third sector to establish 'It Makes Sense'[12], a microcredit scheme to reduce dependence on high cost credit. The scheme offers low interest loans of up to 12% APR to social welfare recipients, with repayments deducted directly form welfare payments.

7. Energy-related issues

7.1. We welcome the fact that the poverty premium has been recognised as an issue in the energy market and that action has been taken. However, there is still a long way to go. This is illustrated by the Department for Business, Energy & Industrial Strategy letter to energy companies introducing a Tariff Cap bill *"because the energy market is not working for all customers".*[13]

7.2. The best tariffs are typically reserved for online, direct debit credit customers. The market rewards switching and takes advantage of loyalty, which does not reflect the behaviour of many consumers, including those on low incomes.

7.3. It is to be hoped that the advent of smart meters will alleviate problems with estimated bills and allow easier switching.[14] We query whether low income customers should be prioritised for the rollout of second generation smart meters.

7.4. The Ofgem report "Vulnerable consumers in the retail energy market 2017"[15] states:

"The two-tier energy market means that some groups of vulnerable consumers lose out. Nearly half of consumers who are unemployed, or have intermittent, semi- or low-skilled work, have never switched supplier, compared to under a third of other consumers. This means that they are more likely to be on expensive standard variable tariffs, despite being less able to afford them."

7.5. Ofgem has taken action in relation to the poverty premium relating to more expensive prepayment meters. The prepayment meter price cap has been in force since April 2017 and was extended to a further group of customers receiving the warm home

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[12] More information on the It Makes Sense scheme link

[13] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/683651/Letter_to_Energy_Companies_26_Feb_2018.pdf

[14] https://www.theguardian.com/environment/2018/mar/11/labrador-switch-energy-suppliers

[15] https://www.ofgem.gov.uk/publications-and-updates/state-energy-market-2017

discount in February 2018.[16] However, whilst this rate is cheaper than the standard variable rate, it is still not set at the cheapest level.

7.6. People who cannot pay by direct debit, because they do not have a transactional bank account, cannot access the best deals, and are therefore more likely to be paying a more expensive default tariff and paying their bills as they arrive, rather than spreading the cost.

7.7. The best energy tariffs are often online only, which means that people who are unbanked or digitally excluded cannot access the cheapest tariffs. This creates a poverty premium by reserving more expensive tariffs for people who are most likely to be vulnerable.

7.8. Energy efficiency is a factor that should not be ignored. The poor quality of much UK housing, and private rented accommodation in particular, means many households have to pay well over the odds to stay warm and fuel poverty is again on the rise according to the Ofgem consumer vulnerability report.[17]

7.9. We welcome the Joseph Rowntree Foundation initiative to put in place a fair design fund.[18] JRF says:

"Low-income households often pay more for the energy they use, for example, through pay-as-you-go meters or by not switching suppliers. 5.8 million low income households pay an extra £317 a year for gas and electricity because they are stuck on pay-as-you-go tariffs or not switching to a cheaper provider."

8. The impact of enforcement (bailiff) fees

8.1. In the area of council debt collection, we have previously called on the government to place current good practice guidelines for local authorities[19] on a statutory footing, as a means of improving debt collection, and to introduce statutory reporting of debt collection methods and outcomes as a means of increasing the pace of change across the country. In the shorter term, the Ministry of Housing, Communities and Local Government could endorse the six areas of best practice we have identified in our recent *Stop The Knock* research[20], as a means of further encouraging authorities to improve their collection practices to prevent extra charges being incurred for enforcement where possible.

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[16] https://www.ofgem.gov.uk/gas/retail-market/market-review-and-reform/implementation-cma-remedies/safeguard-tariff-or-price-cap
[17] https://www.ofgem.gov.uk/system/files/docs/2017/10/consumer_vulnerability_report_web_003.pdf
[18] https://www.jrf.org.uk/press/poverty-premium-new-fair-design-fund-aims-raise-20m

[19] DCLG (2013), Council Tax: guidance to local councils on good practice in the collection of Council Tax arrears, June 2013, link
[20] Money Advice Trust (2017), Stop The Knock: Mapping local authority debt collection practices in England and Wales, November 2017, link.

8.2. The government should also take urgent action on bailiff reform to prevent continued detriment arising from the actions of some bailiffs and bailiff firms. We would urge government to consider the recommendations[21] of the advice sector's *Taking Control* campaign, which include independent regulation for the bailiff industry, a single complaints mechanism and a restructuring of bailiff fees to incentivise good practice.

8.3. We would argue that the 2014 changes have legalised high and disproportionate bailiff fees and bailiffs inflating small debts – a small Council Tax debt of £100 can now attract £420 or more in bailiff charges within just a few months, making it even harder for people to pay. We suggest a way of mitigating the added burden of liability order fees would be to adopt the recommendation from the "Independent Review of Local Council Tax Support Schemes Review".[22]

> *"Government should enable LCTS recipients to pay off arrears through a voluntary attachment to benefits agreed with the council, without the requirement to obtain a liability order. Safeguards should be put in place to ensure that individuals have had the time, information and capacity to consider the option and make an informed decision."*

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[21] AdviceUK, Christians Against Poverty, Citizens Advice, Money Advice Trust, StepChange Debt Charity, The Children's Society, Z2K (2017), Taking Control: The need for fundamental bailiff reform, March 2017, link

[22] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/514767/Local_Council_Tax_support_schemes_-_review_report.pdf