



# Paying More to be Poor

The poverty premium in energy,  
telecommunications and finance



Consumer Futures Unit



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# 1 EXECUTIVE SUMMARY

- 1.1 As Scotland's consumer champion, Citizens Advice Scotland (CAS) is driven to identify and mitigate consumer vulnerability through evidence-based advocacy and education. While anyone can be a vulnerable consumer, those on a low income can find themselves particularly susceptible to financial detriment.
- 1.2 One such manifestation of this is when those on a low income pay more for goods and services due to their weaker position in consumer markets. This is known as the 'poverty premium'. This report looks at the common causes and manifestations of the poverty premium in energy, telecommunications, credit, loans and insurance in Scotland, with other smaller areas like food shopping considered as well. The report is based on quantitative and qualitative research conducted by Ipsos MORI on behalf of CAS and also draws upon CAS' own statistics and case evidence to help paint a picture of the experiences low income consumers have of the poverty premium across the country.
- 1.3 Based on the findings of this research, recommendations are made regarding the ways in which government, regulators, consumer organisations, businesses and other stakeholders could work together to reduce the burden of the poverty premium on low income consumers in Scotland. Following on from this report's publication, CAS will be engaging with stakeholders in industry, the government and third sector over the coming months with a view to finding solutions to the problem of the poverty premium. We would welcome the opportunity to work with any organisation similarly committed to fundamentally addressing these issues.

## *Key findings*

### 1.4 *Energy*

- 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*

- 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.<sup>1</sup>
- 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.<sup>2</sup>
- 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.

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<sup>1</sup> [Making Communications Work for Everyone: Initial conclusions from the Strategic Review of Digital Communications](#), Ofcom, 2016

<sup>2</sup> [Family Spending: 2015, Table A1, Components of household expenditure, UK, 2014](#), Office for National Statistics, 2015

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

### *Finance*

- 34% of low income consumers reported having used credit cards in the past year, compared with 80% on high income and 63% 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.

### *Impacts*

- 43% of respondents who said they cut back expenditure as a result of bills and/or repayments said they bought less food, which was the most frequent category of spending to be curbed. Nearly 10% of low income consumers reported cutting back on food, compared to just 1% of higher income respondents. Cutting back on food was shown through qualitative interviews to have a negative impact on the physical health of some respondents.
- 30% of those on a low income said they felt stress or anxiety because of finances, compared to just 5% of those on a high income.
- 13% of those on a low income said they had experienced an impact on their personal relationships with friends, family and others as a result of the poverty premium compared to just 3% on a high income. In addition, households with children were found to be twice as likely to

say their relationships had suffered (17%) than those without children (8%).

### *Support and advice*

- 21% of respondents said they had sought information or advice in relation to their bills or repayments, with 17% saying they had gone to a citizens advice bureaux.
- In interviews, those who had been to a citizens advice bureau for advice generally reported positive experiences.
- Among those who had not sought any advice, a plurality (33%) said they would go to a citizens advice bureau. 40% of low income respondents saying they would do so, compared to 29% of those on a high income.

## 2 SUMMARY OF RECOMMENDATIONS

2.1 As part of this project, we asked Ipsos MORI to develop a list of recommendations for CAS that could alleviate the effects of the poverty premium. These recommendations are:<sup>3</sup>

- Working with suppliers and regulators in the energy, telecommunications, finance sectors 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 work with CAS and others to 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

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<sup>3</sup> Poverty Premium in Scotland, Ipsos MORI for Citizens Advice Scotland, 2016. This report is available on the Citizens Advice Scotland website at [cas.org.uk](https://cas.org.uk).

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.

- Working with government, consumer organisations and third sector organisations to:
  - **Raise awareness of the cost of premiums associated with particular payment methods or forms of credit.** Stakeholders across these sectors should 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.
  - **Improve the ability of people living in rural areas to use online grocery shopping.** Those without means of transport to get to large supermarkets for the best value food offers should be assisted. Supermarkets should work to ensure that delivery and other charges do not unduly harm or deter low income consumers living in other areas from using online grocery shopping.

2.2 The research findings, in conjunction with CAS case evidence, also leads 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.

2.3 CAS is committed to taking forward these recommendations with interested stakeholders and would welcome constructive partnership working across industries and organisations – public, private and third sector – to begin to address these long-standing issues.

### 3 INTRODUCTION

- 3.1 Poverty in Scotland is one of the biggest challenges facing policymakers today. The Scottish Government has estimated that 18% of Scots now live in relative poverty after housing costs,<sup>4</sup> a figure that has remained static in recent years. The broader effects of poverty on society are known to be wide ranging and damaging and can include lower educational attainment by children from less well-off backgrounds and reduced life chances stemming from poorer health and general wellbeing.
- 3.2 A further consequence of poverty – and something that inhibits the attempts of those to improve their financial situation – is that low income households often find that they pay more for basic goods and services simply due to their position in markets. This is known as the *poverty premium*.
- 3.3 The notion that ‘the poor pay more’ has been known since at least the 1960s, when American sociologist and early consumer advocate, David Caplovitz, first coined the ‘poverty premium’ phrase.<sup>5</sup> Caplovitz showed how the options and opportunities for lower-income consumers were limited, especially when faced with aggressive sales techniques that sought to maximise profit.
- 3.4 Given the centrality of the energy, telecommunications and financial markets to people’s lives, the level of financial detriment seen through higher costs and the active regulatory environment designed to ensure fair and transparent markets in these areas, these sectors have commonly been the focus of past research into the poverty premium. In 2013, research by Donald Hirsch for Consumer Futures, supported by the Joseph Rowntree Foundation<sup>6</sup>, made an effort to quantify total detriment and found that low income consumers pay, on average, 10% more for essential goods and services compared to their better-off counterparts. This work examined the operation of markets in the utilities, communications and financial services sectors and made an important contribution to the study of the poverty premium.
- 3.5 This research identified four common manifestations of the poverty premium along with illustrative examples of how each type impacts low income consumers:<sup>7</sup>

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<sup>4</sup> [Poverty and Income Inequality in Scotland: 2014/15](#), Scottish Government, 2016. Relative poverty is defined as households with incomes below 60% of the UK median income.

<sup>5</sup> Caplovitz, D. (1967) “The Poor Pay More”. New York: Free Press

<sup>6</sup> [Addressing the Poverty Premium: Approaches to regulation](#), Donald Hirsch, 2013

<sup>7</sup> Ibid.

- Paying above average utility tariffs because of certain payment methods (pre-payment meters are a typical example of this) or by not getting the best deal.
- Paying more per unit of consumption through a combination of higher fixed per-unit charges and low usage (as can sometimes be seen with low volume Pay As You Go mobile phone customers).
- Paying more because of general financial and digital exclusion, such as not having the ability to take advantage of Direct Debit paperless billing discounts.
- Paying for more expensive consumer credit like payday loans or hire purchase agreements.

3.6 The report found that lower income consumers are disadvantaged by their place in the market and in many cases unable to leverage what purchasing power they do have. For example, markets, by their very nature, tend to reward active consumers, who frequently have the tools (such as the internet) to take advantage of competition between suppliers and take up the best available offers; such options may not be as widely available to low income consumers.

3.7 Indeed, the evidence on the poverty premium suggests that market mechanisms, despite operating in a regulatory environment designed to encourage consumers to be active, are failing to provide adequate incentives for producers and suppliers to sufficiently address the poverty premium.<sup>8</sup> In practice, this has meant that low income consumers have remained marginalised in the consumer landscape while businesses continue to focus on those segments of the market that are seen to be more lucrative.

3.8 This is not to suggest, however, that progress has not been made at tackling certain instances of the poverty premium. The introduction of basic bank accounts<sup>9</sup> is a notable example, as is reductions to the costs of energy supplied to pre-payment meter (PPM) customers following regulatory action. In this latter example, an Ofgem investigation found that when compared to customers who used a direct debit, prepayment meter customers were paying significantly more for their energy than it cost to supply it. The consequence was that, since 2009, energy suppliers have been required to ensure that the price paid by PPM customers more closely reflects the cost of this form of energy supply when compared with direct debit and standard credit tariffs.

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<sup>8</sup> [The UK Poverty Rip-Off: The poverty premium 2010](#), Save the Children, 2011; [End Poverty Premiums](#), Child Poverty Action Group; [The poverty premium – framing the debate, tackling the issue](#), PwC, 2014

<sup>9</sup> [The Best of British Banking](#), Accent for Consumer Focus, 2010

- 3.9 More recently, as a result of the Competition and Markets Authority (CMA) energy market investigation,<sup>10</sup> Ofgem acted to impose transitional price controls on PPM customers that will remain in place until 2020 as a way of lessening the burden of PPM charges on users (who are predominately on a low income).<sup>11</sup>
- 3.10 Every day, citizens advice bureaux in Scotland help clients struggling to cope with the effects of the poverty premium and CAS has committed to learning more about its causes and to finding possible solutions. In 2015, we commissioned the research firm Ipsos MORI to undertake a quantitative and qualitative research project with the intention of better understanding the extent and effects of the poverty premium amongst low income consumers in Scotland. This research looked at the poverty premium in energy, telecommunication, credit, loans and insurance and the findings are the subject of this paper.
- 3.11 The above areas were chosen for this research for a number of reasons. First, they are commonly where financial detriment arising from the poverty premium can be most clearly seen, and therefore provides a favourable vantage point from which to not only assess impacts but also to make recommendations to solve these problems. Second, these areas have active regulators alert to these issues who have tried in various ways to address detriment arising from the poverty premium in recent years.
- 3.12 In addition to being some of the most complained about sectors across Great Britain as a whole,<sup>12</sup> they also represent some of the largest areas of consumer advice we see in Scotland. Taken together, citizens advice bureaux across Scotland dealt with 143,217 new issues in the energy, telecommunications and finance sectors in 2015/16, representing nearly a quarter of all issues seen by bureaux. This figure reflects the centrality of these sectors to people's lives and provides a further reason as to why they deserved scrutiny.
- 3.13 The Ipsos MORI research found that the poverty premium is a real experience for some low income consumers in Scotland, with indications that they may be paying more for goods and services in these key areas than possibly need be the case. Across these areas, the research found that while some low income consumers consciously chose more costly payment options like prepayment

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<sup>10</sup> [Energy Market Investigation: Final report](#), Competition and Markets Authority, 2016

<sup>11</sup> ["Ofgem working to deliver a more competitive, fairer energy market for all consumers"](#), Ofgem, August 2016

<sup>12</sup> [Understanding Consumer Experiences of Complaint Handling](#), DJS Research for Citizens Advice, 2016

meters for energy and Pay As You Go phones for reasons of flexibility and convenience, there was also a feeling amongst some respondents that they were in a sense trapped and unable to lessen their financial pressures. In these cases, the research found that consumers were not confident that they'd get a better deal, were burdened by costly procedural concerns or were simply priced out of better options.

- 3.14 All told, the poverty premium was shown to have negative impacts on the physical and mental health of some respondents as it effectively heightened the detrimental well-being effects of those already living at or near the poverty line. The research found that expenditure, particularly on food, was cut back while stress and anxiety levels would ramp up as worries about meeting existing financial obligations mounted. Relationships with families, friends or partners were found to have suffered, particularly amongst those with children. These findings closely correspond to the findings of recent CAS research examining the damaging effect of gaps in income on bureaux clients, including cutting down on energy usage and food consumption.<sup>13</sup>
- 3.15 Digital exclusion remains a key area of concern for CAS,<sup>14</sup> and this research showed that across all the areas studied, the importance of digital skills and access in alleviating the causes and effects of the poverty premium to be of critical importance. We found that the ability to use and access computers and the internet helped facilitate active consumer behaviour through increased switching activity.
- 3.16 This report also aims to demonstrate how businesses, industries, governments and regulators can begin to address unfair detriment in these markets and what steps can be taken to influence consumer behaviour so as to mitigate or avoid this detriment altogether. CAS will be working with key stakeholders across these sectors to help begin the process of tackling the root causes of the poverty premium.

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<sup>13</sup> [Living at the Sharp End: CAB clients in crisis](#), Citizens Advice Scotland, 2016

<sup>14</sup> [Bridging the Digital Divide: Measuring progress of digital inclusion amongst Scottish CAB clients](#), Citizens Advice Scotland, 2016

## 4 METHODOLOGY

4.1 This report uses independent research and evidence from bureaux to demonstrate the impact of the poverty premium. Together, these pieces of evidence point to the extent of the poverty premium and the impact it can have on the lives of those who experience it.

### INDEPENDENT RESEARCH

4.2 CAS commissioned Ipsos MORI in August 2015 to carry out a qualitative and quantitative survey that would help answer particular questions about how businesses, industries, governments and regulators can address the unfair detriment experienced by low income consumers.

4.3 The specific objectives were to:

- Examine the consumer behaviour and purchasing decisions of low income consumers<sup>15</sup> in Scotland.
- Compare the behaviour of low and high income consumers.
- Explore any barriers that low income groups may face when attempting to access the best deals in the markets.
- Look at how companies in the energy, telecommunications and finance markets interact with low income consumers, assessing if there are any areas of concern from a consumer point of view.
- Explore the extent to which consumers are aware of a poverty premium and the ways in which the poverty premium burden may be lessened.
- Suggest creative solutions for solving the issues associated with the poverty premium.

4.4 The research was conducted using a mixed-methods approach to allow both the nature and the scale of the issues to be explored. It comprised:

- A telephone survey of 1,000 consumers in Scotland (aged 16 and over).

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<sup>15</sup> Classified as those earning less than £15,600 per year. 'Middle income' respondents were classed as those earning between £15,600 and £49,399 while 'high income' respondents were those earning £50,000 and above.

- Follow-up in-depth interviews among 32 selected low income respondents to the telephone survey. The final sample drew from a range of people and efforts were made to ensure participants were mixed. The final sample included:
  - 21 women and 11 men
  - Five individuals aged 16-34, 15 individuals aged 35-54 and 12 individuals aged 55 and over.
  - Three people in full time employment, six in part time employment, 16 not in employment and seven retirees.
  - 24 individuals from urban areas and eight from rural areas.
  - 18 people who had switched suppliers in the past three years and 14 who had not.
  - 22 interviews were undertaken in person with the remaining 10 conducted over the telephone.

4.5 The quantitative element was carried out first to identify the key issues faced by low income consumers in comparison to those on higher incomes. These issues were then explored in more detail during the qualitative interviews. The interviews were built around a discussion guide that was developed by Ipsos MORI in consultation with CAS. All interviews were conducted between 4 and 19 February 2016 and respondents were given £25 as a ‘thank you’ for their time. All interviews were audio recorded and transcribed for purposes of analysis.<sup>16</sup>

## **BUREAUX EVIDENCE**

4.6 The findings in the Ipsos MORI report are buttressed with quantitative and qualitative evidence from the Scottish citizens advice network. These figures and case studies provide further context for this report and help demonstrate the on-the-ground, lived realities of those grappling with the effects of the poverty premium.

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<sup>16</sup> A detailed methodological breakdown can be found in Ipsos MORI’s report Poverty Premium in Scotland pp 6-8 available on the Citizens Advice Scotland website at [cas.org.uk](http://cas.org.uk).

## 5 ANALYSIS

- 5.1 The following section provides the policy context in each area before discussing the findings from the Ipsos MORI research and supporting bureaux evidence. Later sections look more closely at the impact of the poverty premium.

### ENERGY

#### *Policy context*

- 5.2 Ensuring affordability in the retail energy market has been a primary concern of regulators and successive governments. Broadly speaking, wholesale and retail energy policy in the UK is guided by the notion that effective and efficient competition will help ensure that the market works best for consumers. Central to this is the idea that consumers should find it easy to switch suppliers in order to benefit from better deals, something that would help promote the level of competition needed in order to keep costs to the consumer low.
- 5.3 To help deliver an effective and efficient energy market for consumers, there have been a number of governmental and regulatory interventions in recent years.<sup>17</sup> This culminated in Ofgem's referral of the energy market to the CMA for investigation in June 2014 and, following the publication of the CMA's investigation,<sup>18</sup> Ofgem's subsequent decision on remedies in August 2016.<sup>19</sup>
- 5.4 The CMA released its final report on remedies in June 2016. 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; indeed, among the CMA's conclusions, it found that the market was failing PPM customers in particular, as there were 'softened incentives' for suppliers to compete to gain new PPM customers. This was found to be due to the higher costs perceived to be associated with this group and meant the financial gains to be had from switching were lower when compared to those who chose to pay via Standard Credit or Direct Debit. This problem is particularly acute in Scotland, where a higher proportion of consumers are on PPMs than the rest of the UK.
- 5.5 Indeed, foreshadowing the CMA's conclusions, past research by Ofgem in 2015 looking at the functioning of the PPM market found that although there

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<sup>17</sup> [Competition in Energy Markets in Great Britain](#), House of Commons Library, 2016

<sup>18</sup> [Energy Market Investigation: Final report](#), Competition and Markets Authority, 2016

<sup>19</sup> [Remedy Implementation Strategy](#), Ofgem, 2016

were examples of good practice from across the industry, more work needed to be done to ensure PPM charges were appropriate.<sup>20</sup> It also cast doubt on the effective functioning of the market, noting the weak competitive elements at play in the sector.

- 5.6 With this in mind, one of the CMA's key recommended remedies was to institute a price cap for PPM users, to be in effect until 2020 whereupon it is believed the increased provision of smart meters will enable greater access to cheaper tariffs for PPM customers. In its response to the CMA's investigation, Ofgem said it would indeed institute the PPM price cap, stating that it believes it will save consumers £75 a year from April 2017.<sup>21</sup>
- 5.7 While the action on PPMs was welcomed by many, it remains to be seen whether the remedies go far enough. In 2015/16, citizens advice bureaux across Scotland dealt with 10 issues every working day relating to difficulties making gas and/or electricity payments, representing the largest sub-category of fuel debt advice given to clients. This points to the scale of the challenges facing policymakers, suppliers, regulators, consumer bodies and consumers themselves. As explored in more detail below, 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*

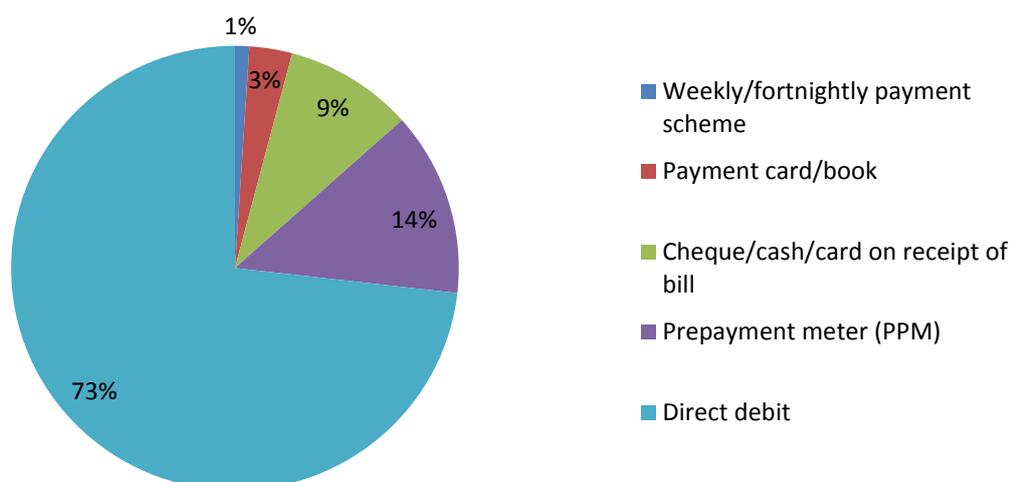
- 5.8 Respondents to the Ipsos MORI survey reflected some of the market trends described above. Looking at payment method, 71% said they paid by direct debit compared with 13% who said they used PPMs (a further 9% paid by cash, card or cheque upon receipt of a bill) as seen in Figure 1 on the next page.

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<sup>20</sup> [Prepayment review: Understanding supplier charging practices and barriers to switching](#), Ofgem, 2015

<sup>21</sup> ["Ofgem working to deliver a more competitive, fairer energy market for all consumers"](#), Ofgem, August 2016

Figure 1: Methods of paying for energy bills



5.9 Looking at PPMs specifically, the survey revealed that these numbers broke along familiar income lines, with low income respondents more likely to use PPMs (27%) than those on a middle (12%) or high income (1%). Those who rented their home from a council or housing association were also more likely to use a PPM (43% compared to 16% of private renters and 4% of owner occupiers). The research also found that while low income respondents spent less in cash terms on their energy bills (32% spent less than £60 per month compared with 13% of higher earners), 20% of low income respondents – including 24% of all users of PPMs – paid over £100 per month on their energy bills.

5.10 To provide some context, the average monthly spend on energy across all households in the UK is approximately £112 per month, with the lowest three income deciles paying on average £92 per month according to the ONS.<sup>22</sup> However, UK consumers in these bottom three deciles<sup>23</sup> spend on average 8.5% of their total income on energy, compared with just 3.7% for the top three income deciles.<sup>24</sup> This highlights the financial detriment faced by low income consumers in the energy sector and which can be explained at least in part, as the CMA and Ofgem have done as part of the energy market review, by the prevalence of PPM meters amongst this segment of the population. Taken together, one can begin to better understand the situation low income consumers in Scotland face.

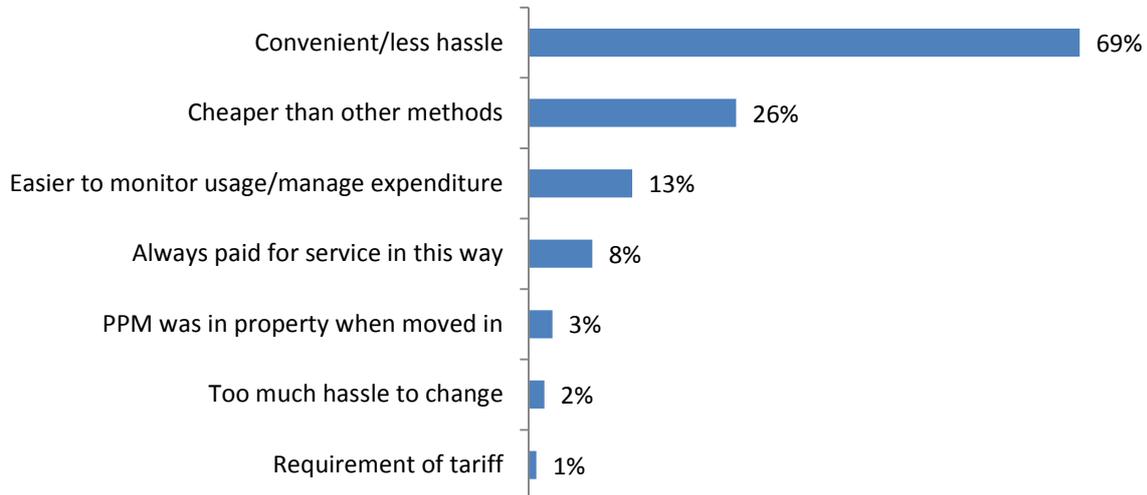
<sup>22</sup> [Family Spending: 2015, Table A1, Components of household expenditure](#), Office for National Statistics, 2015

<sup>23</sup> The bottom three income deciles used by the ONS includes those earning up to £18,564 annually, meaning it is not a perfect proxy for our definition of a low income consumer as someone earning £15,600 a year or less. However, it provides a rough comparison for background.

<sup>24</sup> [Family Spending: 2015, Table 3.2, Detailed household expenditure as a percentage of total expenditure by disposable income decile group](#), Office for National Statistics, 2015

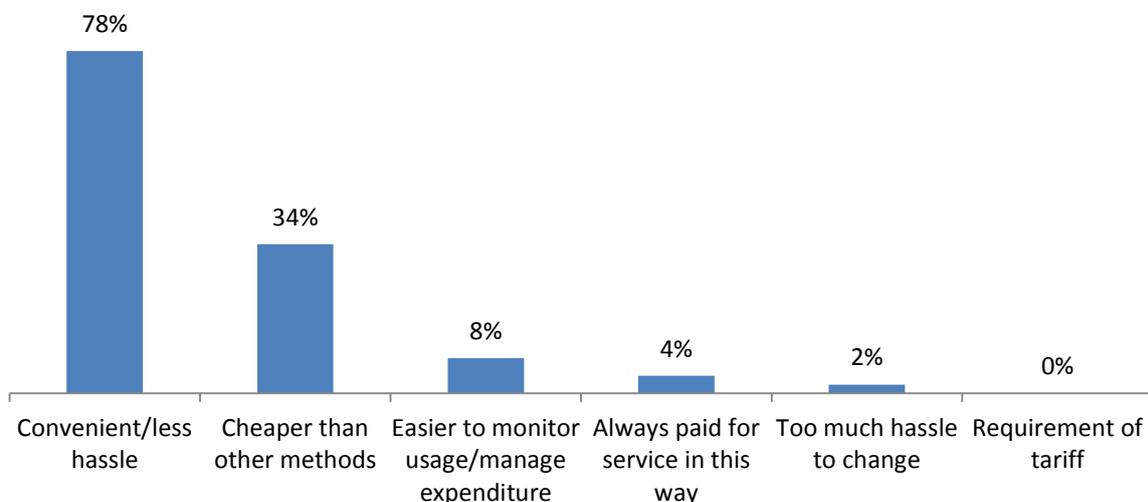
5.11 Examining attitudes towards different payment options reveals some interesting trends. The main reasons survey respondents chose to pay for their energy in the way they did (either direct debit or PPM) was convenience followed by cost compared to other methods and the ease with which they were able to monitor and manage their expenditure (Figure 2).

Figure 2: Reasons for using payment methods



5.12 In general, those who paid for their energy by Direct Debit did so because of convenience more so than because of any other factor, with 78% of respondents selecting this (Figure 3). Indeed, in the qualitative portion of the research, respondents noted that paying by Direct Debit gave them “peace of mind” and a sense of security knowing their payments would come out automatically and on time. Despite generally being cheaper than other payment methods, that reasoning came a distant second, with only just over a third of respondents choosing it as their main reason.

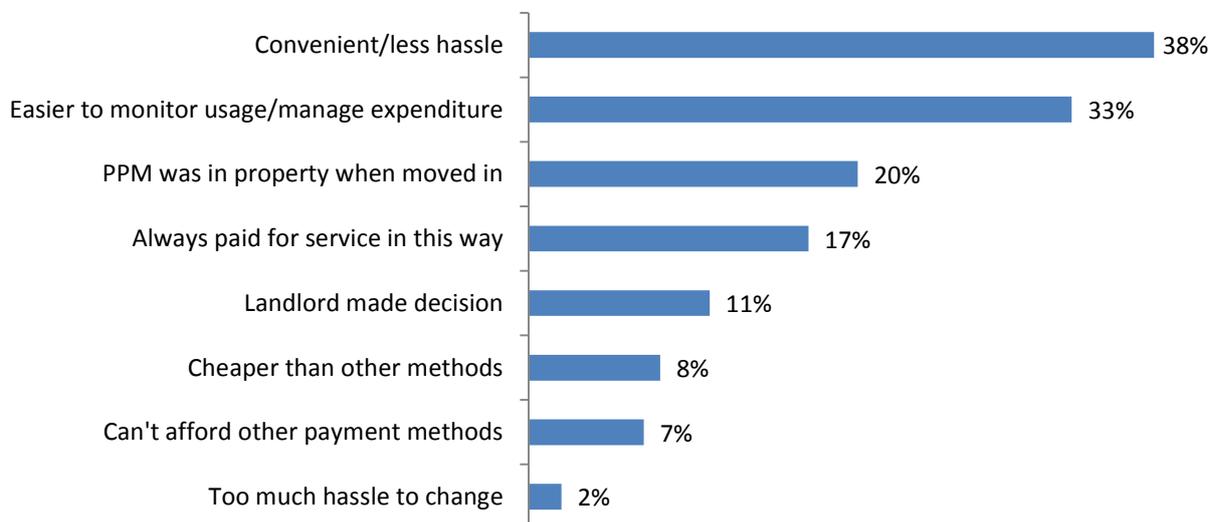
Figure 3: Reasons for using Direct Debit



5.13 By contrast, those who used PPMs – mainly those on low incomes – were more likely to do so because they felt it was an easy way to monitor usage and manage expenditure (33% of this group selected this compared to 8% of those using Direct Debit). This enhanced feeling of control was prized by those using PPMs alongside a feeling of flexibility over when and how they made payments.

5.14 It is interesting to note, however, that close to one in three respondents said they used PPMs because a meter was in the property when they moved in or because their landlord made the decision for them (Figure 4). There may, therefore, be a feeling of disempowerment amongst these consumers when choosing how to pay for their energy.

Figure 4: Reasons for using prepayment methods



*CAB case evidence:*

***A South of Scotland CAB reports of a client who is wanting to change from a PPM to a credit energy meter but failed a credit check. As a result, their energy provider was requiring that he had to pay a £150 security deposit before changing the meter. The client felt this was unfair to pay more for energy as he didn't want to pay a premium for his electricity. Moreover, he had a history of having a long-standing Direct Debit history with this energy supplier on previous accounts and was uncertain as to why he couldn't easily switch payment methods.***

5.15 Importantly, there was a sense from participants in the qualitative portion that those using PPMs knew they were likely paying more for their energy than those on other payment methods, but believed this difference to both be slight

and worthwhile given the extra control over their energy usage and expenditure. With the new PPM price cap to be instituted from April 2017, this may increasingly be the case. However, given past research demonstrating that PPM customers could save up to £300 a year by switching to Direct Debit,<sup>25</sup> it is worthwhile to explore the ways in which awareness of the premiums associated with different payment methods could be heightened amongst those consumers most at risk of detriment.

*Interview excerpts:*

***“I know it’s that little bit more expensive like but I would rather have that than get hit with bills I can’t understand.”***

***“It does run down quicker. I’ve heard it’s more expensive in the long run, but you know how much you’ve got and how much you can use.”***

### *Switching*

- 5.16 Generally speaking, across the UK, research has found that consumers tend to exhibit weak attitudes towards switching energy suppliers, with most domestic customers not engaging with the market and choosing instead to stay with their current supplier and tariff.<sup>26</sup> The CMA Energy Market investigation found that “disengagement and weak customer response is a more significant problem among prepayment customers compared with domestic customers on Direct Debit”.<sup>27</sup> This disengagement contributed to a total financial detriment for prepayment customers approaching £400 million in 2015 alone.<sup>28</sup>
- 5.17 Our survey respondents exhibited similar trends. Just 24% of respondents reported having switched energy supplier in the past three years, with low income consumers much less likely than their higher income counterparts to have done so (19% of low income compared to 31% of those on a higher income). However, of those that haven’t switched, less than half (47%) of respondents said it was because they were happy with their current supplier and one in five said it was because they thought the switching process to be a hassle. The complete breakdown of reasons for not switching can be found in Figure 5 below.

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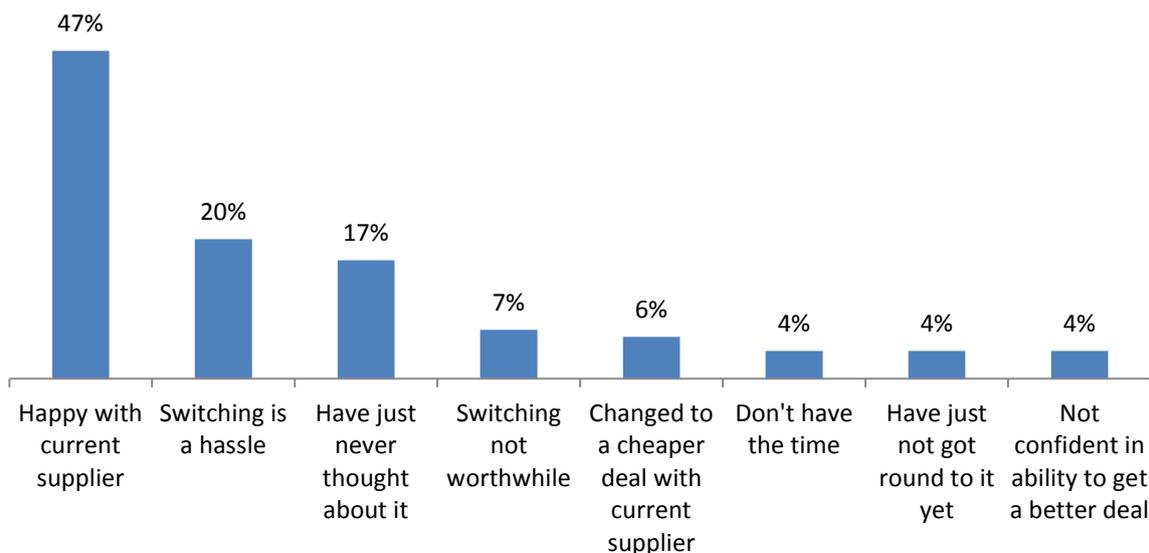
<sup>25</sup> [Prepayment review: Understanding supplier charging practices and barriers to switching](#), Ofgem, 2015

<sup>26</sup> [What can behavioural economics say about GB energy consumers?](#), Ofgem, 2011

<sup>27</sup> [Energy Market Investigation: Final report](#), Competition and Markets Authority, 2016

<sup>28</sup> Ibid.

Figure 5: Reasons for not switching supplier



5.18 Interestingly, those in the most deprived areas were more likely than those in the least deprived areas to consider switching to be a hassle (24% vs 17%), as were those aged over 55 (26% vs 16%). Given the struggles both of these groups have in getting online and using computers and the internet in general, this could indicate lower awareness of price comparison websites and online switching services, both of which can help smooth the switching process. Indeed, just 19% of low income respondents said they used an online comparison service to switch suppliers, compared with 71% of those on a high income. However, this could also serve to indicate a perception that switching will lead to problems.

5.19 Indeed, the importance of internet access came to the fore when investigating switching patterns. The results showed that those with access to the internet from home were more likely to have switched (26% vs 10%), with higher income respondents in this cohort more likely to have switched than low income ones. In any case, the importance of having internet access in order to facilitate active consumer behaviour is clear.<sup>29</sup>

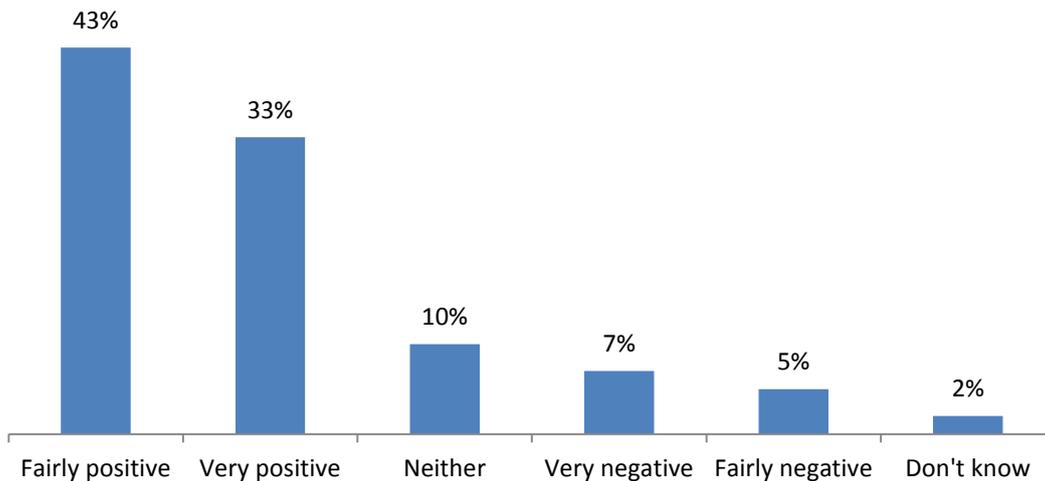
5.20 It is worth pointing out that low income respondents were more likely to have switched by phoning a supplier directly, with 15% of low income respondents switching in this way, compared with just 4% of those on a high income. 14% of low income respondents also reported switching by approaching a salesperson in the street or another public place, compared with just 1% of those on a high income, indicating a preference for less mainstream switching options. It is important, therefore, that those who do choose to go about switching supplier in this way are given the same level of information about

<sup>29</sup> The Citizens Advice Scotland report [Bridging the Digital Divide](#) further explores the issues of digital access and ability amongst Scottish CAB clients specifically.

services and tariffs that can be found online as well as equal access to money-saving tariffs (i.e. limit online-only, or comparison website-only deals).

- 5.21 When considering consumers' experience of switching, there is good news in that 76% of respondents reported having a positive experience, as opposed to just 12% who had a negative experience (Figure 6).

Figure 6: Experience of switching a supplier



- 5.22 Participants in the qualitative portion of the study mainly said they found the process of switching easy and that suppliers did “all the hard work” for them. Importantly, participants said they had enjoyed savings of between £60 and £360 per year on their bills. It is therefore important that this process is as straightforward as possible so that consumers aren't dissuaded from switching because of the perception of difficulty.
- 5.23 However, participants in the qualitative portion of the study who had had negative experiences, though small in number, considered their experiences to be so negative that they would not consider switching again. In some of these cases, participants reported having received bills from both their old and new supplier around the same time, which they found impossible to anticipate and difficult to budget for.

*Interview excerpts:*

***“I’ve tried all this changing and they tell you there is going to be no overlap with the bills, but that’s not true. It’s not the first time I’ve had to pay two bills in one month and my budget doesn’t allow for that.”***

***“I mean, I have changed before a couple times, but each time they’ve said that you will never have two bills in one month. You will be finished with one provider before you start paying the next one and it just so happens that you do get the crossover two bills in one month.”***

- 5.24 There was also evidence of possibly misleading sales tactics, with one interview participant saying they felt misled to switch energy supplier by emphasising lower weekly payments without discussing the resultant accrual of a sizeable monthly balance.

*Interview excerpt:*

***“The guy said ‘how much would you like to pay?’ At that time I said a fiver a week. He said ‘I can do that.’ I said ‘can you?’ But, what he didn’t mention was once that fiver a week... if that didn’t cover your bill, I would have a big outstanding balance and I quickly sussed that out after a fortnight.”***

- 5.25 It is clearly of great importance to ensure that any rough edges around the switching process are smoothed out. For instance, recent research examining the Energy Best Deal and Energy Best Extra (energy advice programmes delivered in part by Citizens Advice Scotland) found a combined distrust and misunderstanding of both price comparison websites and energy providers added to the reluctance of consumers to switch their energy supplier.<sup>30</sup> Work needs to be done to ensure that consumers are persuaded to look at switching suppliers and to ensure the process gives them confidence that it will be done quickly and accurately.
- 5.26 Other qualitative participants made reference to the fact that they lacked the confidence needed to fully engage with and understand the number of different tariffs on offer, as well as holding a distrust of suppliers and a feeling that only small savings could be had by switching (things that also indicate the importance of increasing education and empowerment).

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<sup>30</sup> [Energy Best Deal: Evaluation Report 2014/2015](#), Centre for Sustainable Energy, 2015

*Interview excerpts:*

***“That’s what people like me don’t understand. Four or five different tariffs for electricity for the same property. Why don’t they have a standard rate for everybody and everybody pays the same?”***

***“I don’t believe in these special deals that they give you – they end up adding something else to it.”***

***“A lot of people would think, ‘Oh, I’m changing to this’, and then they are there for a wee while and then phoning up again and changing [again]. I couldn’t be bothered with that for saving a couple of bob.”***

## **TELECOMMUNICATIONS**

### *Policy context*

- 5.27 Digital telecommunications (most especially the internet and mobile telephony) have quickly evolved to become essential items of day-to-day life for people across the UK. Increasingly, having the access and ability to use digital services can act as a gateway for those wanting to be active consumers as well as open up a huge range of educational, social and recreational activities that can be extremely beneficial to the well-being of users. Ensuring, therefore, low income consumers are not paying over the odds for these services is key for regulators, consumer advocates and providers.
- 5.28 In general terms, the UK has a strong telecommunications market. Looking solely at cost, average monthly spend on telecoms services (internet, mobile voice and data and fixed voice) fell in real terms from £87.20 in 2009 to £82.17 in 2015, according to Ofcom data.<sup>31</sup> Within this, the cost of both fixed voice and mobile voice and data services fell, though broadband costs increased as more people took up fixed line internet services or switched to superfast services.
- 5.29 In spite of this generally favourable market environment, 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

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<sup>31</sup> [Communications Market Report](#), Ofcom, 2016

likelihood of low income consumers utilising PAYG payment options.<sup>32</sup> 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.<sup>33</sup> The usage and effect of PAYG payment plans is explored in more detail in the following section.

- 5.30 However, the strong overall condition of the telecoms market has helped create a situation in Scotland in which greater numbers of people are using telecommunications services, including – crucially – online access. Scottish Household Survey (SHS) data indicates that 80% of households reported having the internet at home in 2014, up from just 53% in 2006.<sup>34</sup>
- 5.31 However, around 1.3 million people in Scotland are either not online or lack basic digital skills needed to participate fully in the digital sphere.<sup>35</sup> Moreover, there are deep divisions along socioeconomic lines, a fact that has significant implications for those wishing to address the poverty premium. Only 69% of households in Scotland’s 20% most deprived areas report having internet access, as opposed to 83% in the rest of the country.<sup>36</sup> There is a similar correlation between adult internet usage and area of deprivation: 25% of adults living in the 20% most deprived areas in the country report not using the internet compared with 16% in the rest of Scotland.<sup>37</sup>
- 5.32 Compounding this problem and further affecting people’s ability and willingness to get online is Scotland’s challenging geography, something that has limited the rollout of superfast broadband infrastructure and mobile coverage into remote parts of the country. For example, 29% of the country has been classed as a voice “not spot”, where no provider supplies voice coverage compared to 13% across the UK as a whole; in addition, a staggering 48% of the country is a data “not spot” (no coverage at all) compared to the UK-wide figure of 21%. BT tends to be the dominant provider offering services in these parts of Scotland, meaning market forces have only played a limited role in extending digital telecommunications services.<sup>38</sup>
- 5.33 As a result, issues relating to access, ability and infrastructure have been policy priorities for some time. In 2014, the Scottish Government published a

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<sup>32</sup> [The Consumer Experience of 2013](#), Ofcom, 2013

<sup>33</sup> [The Consumer Experience of 2012](#), Ofcom, 2012

<sup>34</sup> [Scotland’s People Annual Report: Results from the 2014 Scottish Household Survey](#), Scottish Government, 2015

<sup>35</sup> [Media literacy: Understanding digital capabilities follow-up](#), Ipsos MORI for the BBC, 2013

<sup>36</sup> [Scotland’s People Annual Report: Results from the 2014 Scottish Household Survey](#), Scottish Government, 2015.

<sup>37</sup> Ibid.

<sup>38</sup> [Connected Nations 2015: Scotland](#), Ofcom, 2015

digital inclusion strategy,<sup>39</sup> which intended to foster a “world class” digital environment and help boost digital inclusion. Included in this are partnership working arrangements with stakeholder organisations like the Scottish Council for Voluntary Organisations and the creation of a Digital Participation Charter. The Scottish Government’s Infrastructure Action Plan also has as a key aim the rolling out of the next generation broadband to all Scots by 2020 while also seeking to boost mobile coverage across the country.

### *Our research*

- 5.34 Corresponding with the general trends described above, our survey results revealed use of telecoms services like the internet, landlines and cable or satellite television to be less common among low income respondents than among high income respondents. 18% of those on a low income reported not using any of these services, compared with less than 1% of their high income counterparts.
- 5.35 In addition, and possibly of greater worry given the increasing centrality of the internet to modern life, just 69% of those on a low income reported using the internet at home, as opposed to 93% of those on a middle income and 98% on a high income.
- 5.36 A different picture emerged when looking at mobile telephony. Given the increasingly essential place mobile phones have in people’s day-to-day lives, it is perhaps not surprising that 92% of all respondents to our survey reported owning a mobile phone, while 88% owned a landline and 86% had internet access.
- 5.37 Approximately 26% of low income respondents did not have a landline at all, with the vast majority of this group choosing instead to rely solely on their mobile. This further highlights the importance of ensuring high quality mobile access and service, especially for those on PAYG payment methods.

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<sup>39</sup> [Digital Participation: A National Framework for Local Action](#), Scottish Government, 2014

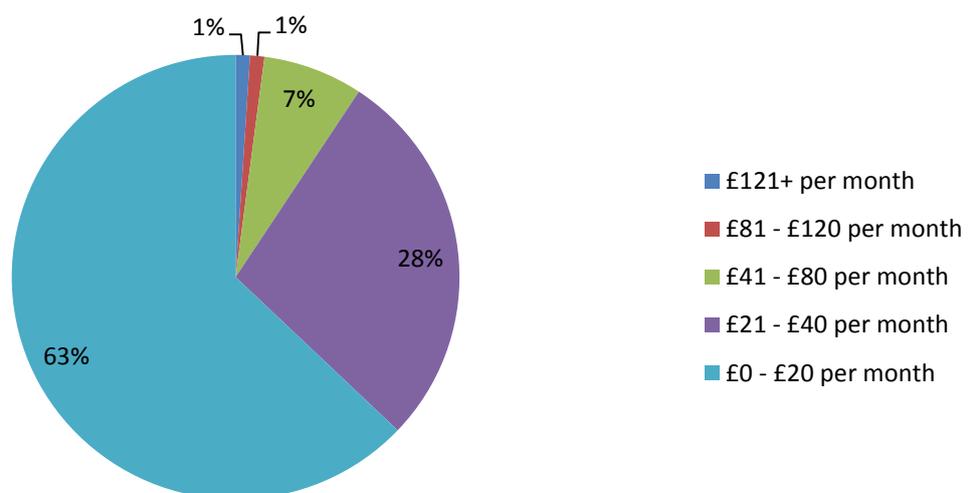
CAB case evidence:

**A North of Scotland CAB reports of a client who needed constant access to a mobile phone due to her health conditions. The client's service with her existing provider had become unreliable and the client had attempted to change providers as a result. The client had a PAYG phone with £38 of credit but was told that this amount was non-refundable and couldn't be transferred to her new provider.**

5.38 Reflecting general demographic trends in mobile telephony more generally, our research data showed a distinction between age groups when looking at usage patterns. Ownership of mobiles was higher among younger groups – 87% of respondents over the age of 55 reported having a mobile phone compared to 96% of those under 55. This held true for internet access as well, where 78% of over 55s said they used the internet, as opposed to 91% of under 55s. Older respondents were also more likely to say they paid for their mobile by PAYG over Direct Debit.

5.39 Monthly spend on mobile phones revealed some interesting trends. Though ONS figures show those in the UK in the bottom three income deciles paying on average nearly £30 per month for mobile phone accounts,<sup>40</sup> most respondents said they paid £20 per month or less for their mobile phone, including 89% of those using PAYG phones. More than one in three (37%), however, reported paying more than £20 per month for their phone bills, as can be seen in Figure 7 below.

Figure 7: Mobile phone bills



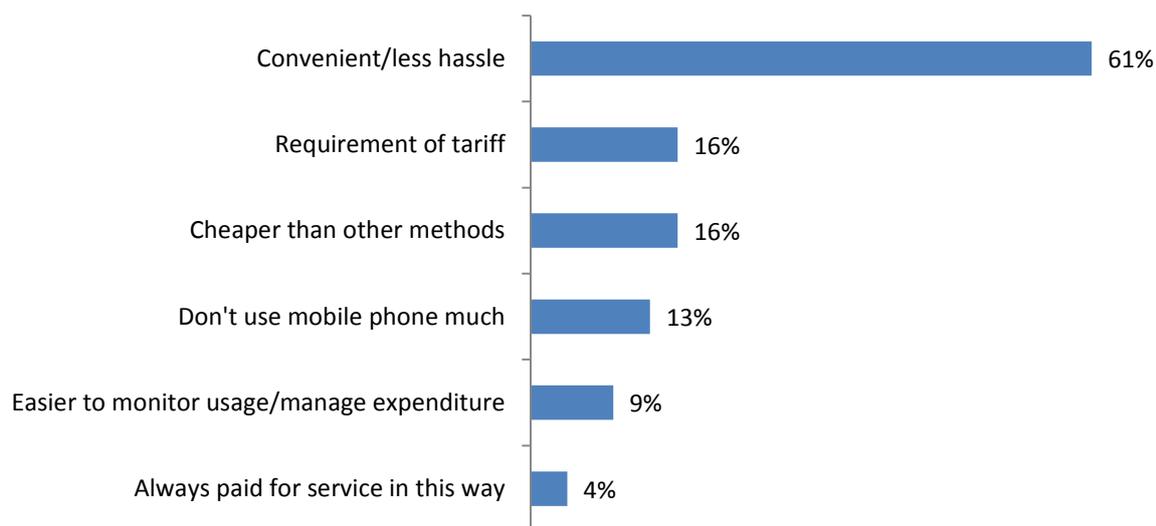
<sup>40</sup> [Family Spending: 2015, Table A6, Detailed household expenditure by gross income decile group](#), Office for National Statistics, 2015

5.40 Of those paying more than £20 per month, 26% were on a low income, pointing to the possibility that these users were paying a greater proportion of their income on mobile phone bills than their higher income peers. Indeed, ONS figures indicate that consumers in the lowest three income deciles pay on average 2.7% of their income on telephone services (within which costs relating to mobile services comprises the majority of spend) compared to just 1.8% amongst those in the three highest income deciles.<sup>41</sup> This suggests the existence of a possibly detrimental premium being paid by lower income mobile phone consumers.

### *Payment methods*

5.41 In common with most of the energy consumers surveyed, mobile phone consumers appeared to choose their payment method mainly based on convenience.

Figure 8: Attitudes towards different payments options (mobile phones)



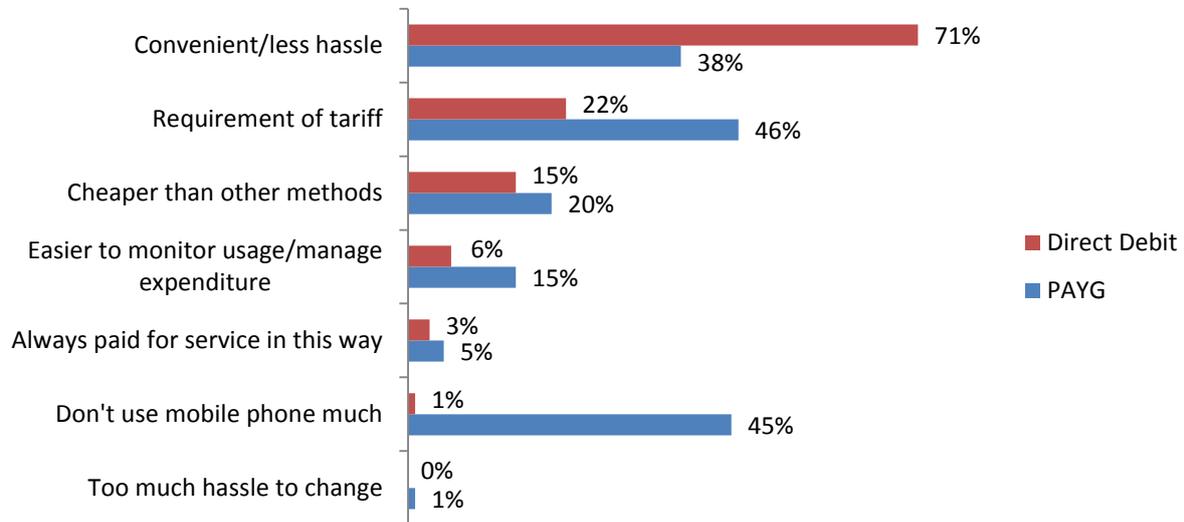
5.42 68% of all mobile phone owners paid their bills by Direct Debit, while 28% opted for PAYG arrangements. As with the energy market, those on a low income were less likely to use Direct Debits (49% said they used Direct Debits) than those on middle (77%) or high (87%) incomes. They were also correspondingly more likely to say they used PAYG phones (47%) than middle (21%) or high (9%) earners.

5.43 As seen in Figure 9 below, Direct Debits were used primarily because they were seen to be convenient while those who used PAYG methods did so

<sup>41</sup> [Family Spending: 2015, Table 3.2, Detailed household expenditure as a percentage of total expenditure by disposable income decile group](#), Office for National Statistics, 2015

predominately due to the requirement of their tariff or because they did not use their mobile phone very much.

Figure 9: Reasons for using either Direct Debits or PAYG phones



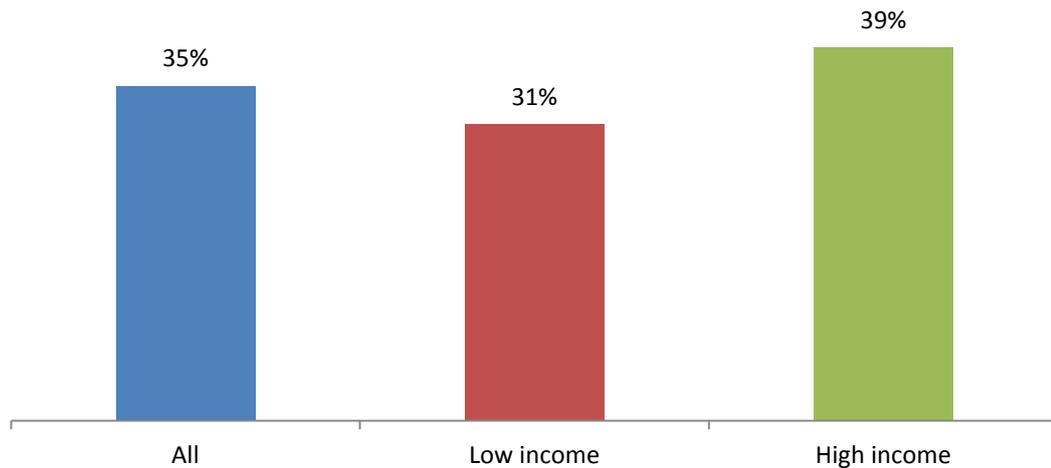
5.44 15% of respondents said PAYG phones made it easier for them to monitor their usage and expenditure, corresponding with a main theme seen in the qualitative interviews where those using PAYG methods particularly valued the flexibility it offered to manage their expenditure on a short term, sometimes week-by-week basis. Similar reasons were also seen when exploring the reasons for using PPMs in the energy sector.

5.45 It is interesting to note the fact that one in five PAYG respondents believe that method to be cheaper than others, compared to 15% of Direct Debit users. This is generally not the case, at least when examined on a cost per unit basis; however, seeing as PAYG methods were used predominately by those who may not use their mobile very frequently, it is conceivable that they might think they would likely be paying less overall than those in monthly contracts.

### Switching

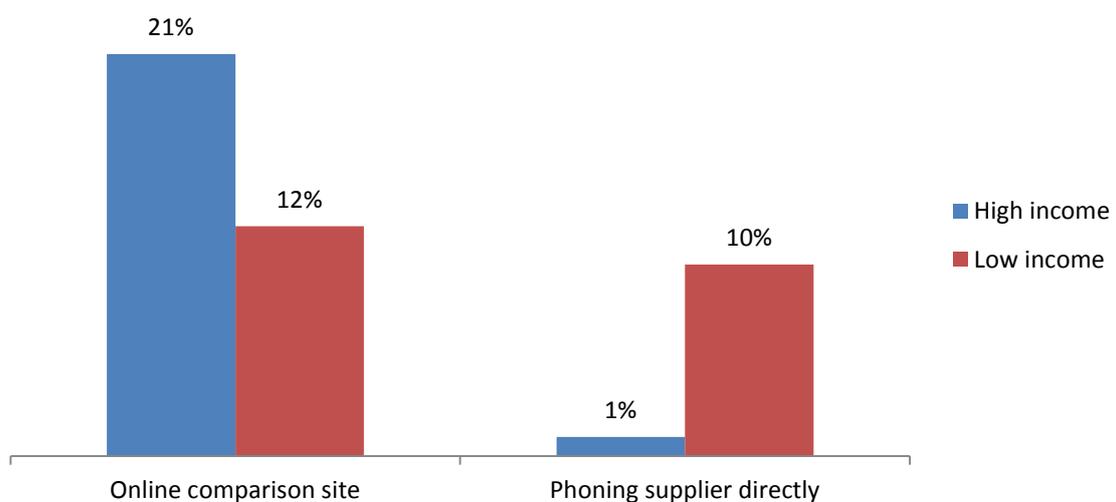
5.46 As seen in Figure 10 below, just over a third (35%) of respondents said they had switched a telecommunications supplier in the last three years, with high income consumers more likely to have done so than their low income counterparts.

Figure 10: Switching telecoms supplier by income



5.47 In common with energy consumers, when it came to telecoms providers, those with an internet connection at home were more likely to have switched, with 38% of those with the internet at home switching providers, compared with just 14% of those without online access. However, only 13% of all of those reporting that they had switched telecoms provider said that they used an online comparison website to do so. Of this group, just 12% of low income respondents said they used an online comparison service to switch, compared with 21% of those on a high income. Instead, those on a low income were more likely to have switched by phoning a supplier directly, with 10% of low income consumers switching in this way compared to 1% of high income consumers.

Figure 11: Switching methods by income



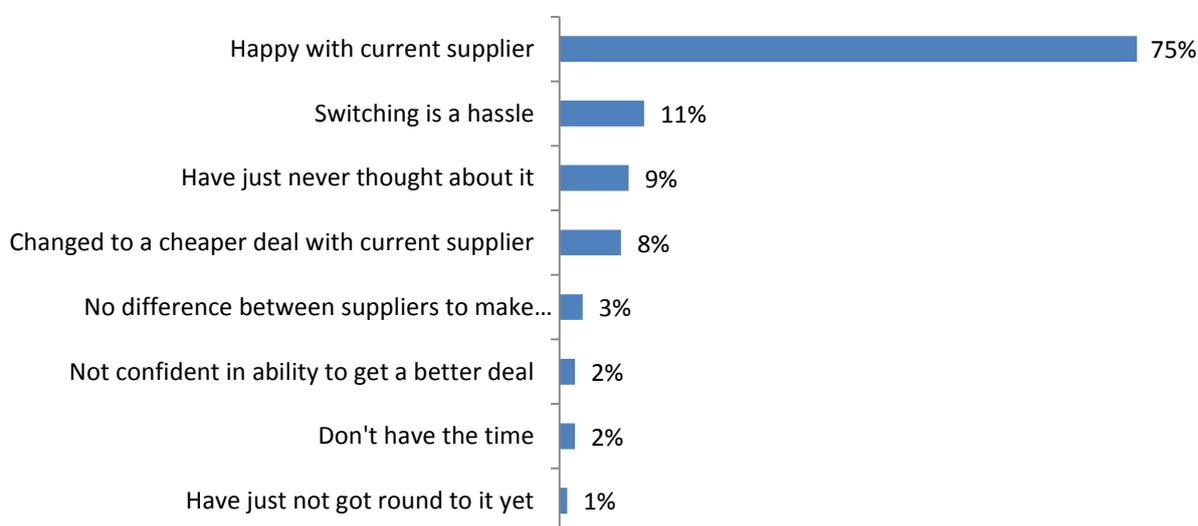
5.48 Taken together, it appears that more effort could be made to raise awareness of online comparison services (including Ofcom's own accredited price

comparison sites<sup>42</sup>) amongst low income consumers while also working to ensure that those who approach alternative suppliers via other means are offered the same tariffs and deals that can be found online.

5.49 When looking at the reasons for switching, the main drivers were to save money (53%), to take advantage of better benefits offered by the new supplier (12%), as a result of poor service from their previous supplier (12%) or that the new supplier offered better customer service (4%).

5.50 When considering the barriers to switching telecoms supplier, most respondents said they were happy with their current supplier, followed by a small number who said switching was a hassle.

Figure 12: Reasons for not switching a telecoms supplier



5.51 By way of comparison, respondents were more likely to be happy with their telecoms provider than with their energy provider (75% to 47%) and also less likely to consider switching supplier to be a hassle (11% to 20%). However, it should be noted that recent research by Ofcom into smartphone use found that consumers were generally not aware whether their contract offered them value for money, preferring instead to simply have access to a phone over cost considerations.<sup>43</sup> This general feeling is reflected in Ofcom's Switching Tracker data, which shows that only a minority of consumers are engaged in switching behaviour in the telecommunications sector.<sup>44</sup>

This suggests there could be a level of apathy at play amongst consumers, whose contentedness with their supplier may be due at least in part by simply

<sup>42</sup> Including billmonitor.com, broadbandchoices.co.uk, broadband.co.uk, cable.co.uk, mobilephonechecker.co.uk and simplifydigital.co.uk: <http://consumers.ofcom.org.uk/tv-radio/price-comparison/>

<sup>43</sup> 'Smartphone by Default' Internet Users, Ofcom, 2016

<sup>44</sup> [Switching Tracker 2015: Chart Pack](#), Ofcom, 2016

having access to a mobile and, presumably, decent service. If we take this idea and consider it alongside the fact that list prices (excluding promotions) are rising for some loyal consumers in the telecoms sector (namely those with dual-play landline and broadband bundles),<sup>45</sup> it could mean that this group, which will include low income consumers, may be paying more than necessarily need be the case for their telecoms services. If this were more widely known, happiness with suppliers may be negatively affected and could prompt more active consumer behaviour.

- 5.52 The above also helps illustrate the risk of the poverty premium for those who use only landlines instead of mobiles. Line rental prices have steadily risen over the past five years, with providers increasing these charges by as much as 44% since 2010. Moreover, Ofcom has found that those using standalone landline services are much less likely to engage with the market and switch providers leaving them open to price rises. In our survey, 8% of respondents said they only owned a landline phone and did not have a mobile, with those on a low income more likely to say this was the case than those on higher incomes (9% vs 6%), pointing to possible financial detriment for this group.

*Interview excerpt:*

***“When it comes to line rental, phone and broadband, I think I pay something ridiculous like £54 a month and I know that’s not a good deal.”***

- 5.53 On top of all this, the Ofcom Switching Tracker found that more low income consumers found it difficult to make cost comparisons across telecoms services.<sup>46</sup> According to its findings, 30% of those classed in the C2DE social grades find it difficult to compare prices in the broadband market, while 32% and 39% cannot confidently compare prices in the mobile or fixed line telephony markets, respectively. Further action to empower these consumers must therefore be taken in order to ensure the market works as efficiently and effectively as possible. This includes enhancing information provision and lowering barriers to switching, most especially those unique to low income consumers (like lack of internet access).

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<sup>45</sup> [Making Communications Work for Everyone: Initial conclusions from the Strategic Review of Digital Communications](#), Ofcom, 2016

<sup>46</sup> [Switching Tracker 2015: Chart Pack](#), Ofcom, 2016

## CREDIT, LOANS, INSURANCE

### *Policy context*

- 5.54 Low income consumers – and vulnerable consumers<sup>47</sup> more widely – can frequently find themselves at a disadvantage in the financial markets. The Financial Conduct Authority (FCA) has found that inflexible systems not designed to meet individual consumer needs, complex information and inconsistent application of certain rules exacerbated by poorly trained staff, have all contributed to fostering an environment where the needs of vulnerable consumers are not being fully met when attempting to make use of financial products and services.<sup>48</sup> Taken together, these factors can contribute to an environment where low income consumers are at risk of financial detriment if not outright exclusion. In these situations, less access to mainstream financial products can lead to consumers paying a poverty premium for the limited range of products and services available to them.
- 5.55 Increasing financial inclusion has been a priority for successive UK governments. Over 2006-2011, the Labour government committed £74 million to a Growth Fund for credit unions to boost lending in areas of deprivation and leading efforts to locate free-to-use ATMs in certain financially excluded parts of the country while efforts were also made to boost face-to-face financial advice services.<sup>49</sup> The coalition government also worked to boost the reach of credit unions through its Credit Union Expansion Project, increased financial education in schools while also brokering an agreement with the banking industry to offer fee-free basic bank accounts.<sup>50</sup> More recently, the CMA released the findings of its retail banking review, recommending the development of open banking platforms and enhanced consumer access to information in a bid to spur switching behaviour and competition between established high street banks and emerging challengers.<sup>51</sup>
- 5.56 In Scotland, steps were taken through the Bankruptcy and Debt Advice (Scotland) Act 2014 to establish a “Financial Health Service” through a revamping of debt advice and debt management services. The SNP also committed in its 2016 election manifesto to “provide resources for a new programme of financial health check-ups” for pensioners and those on a low income to help them “make the most of their money”.<sup>52</sup>

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<sup>47</sup> Defined by the FCA as “someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care.”

<sup>48</sup> [Occasional Paper No. 8: Consumer vulnerability](#), Financial Conduct Authority, 2015

<sup>49</sup> [Financial Inclusion: Improving the financial health of the nation](#), Financial Inclusion Commission, 2015

<sup>50</sup> *Ibid.*

<sup>51</sup> [Retail Banking Market Investigation: Final report](#), Competition and Markets Authority, 2016

<sup>52</sup> [Scottish National Party 2016 Manifesto](#), Scottish National Party, 2016

- 5.57 The FCA has a responsibility for addressing aspects of financial exclusion in the UK and recently examined access issues for financial products and services which sought to examine the current issues affecting consumer access to appropriate financial products and services.<sup>53</sup> Among its findings, it found 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.
- 5.58 An effect of this is to push low income consumers out of mainstream credit markets towards more expensive options. A particularly well-known manifestation of this was the high rates of payday loan usage seen earlier this decade. With the surging popularity of these high interest credit options came a rise in the number of individuals who found themselves trapped in a damaging spiral of debt. At its height in 2013, citizens advice bureaux in Scotland were dealing with over 100 payday loan issues a week despite industry-led efforts to tackle over-indebtedness.<sup>54</sup> After campaigning efforts by Citizens Advice Scotland and others, the FCA imposed a price cap on payday loans in 2014 designed to help ease the burden of payday loan debts on low income consumers. As a result of this action, payday debt enquiries at Scottish citizens advice bureaux have steadily declined in recent years.
- 5.59 Another potentially problematic area commonly seen with respect to the poverty premium is in regards to hire purchase. These 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.<sup>55</sup> Citizens advice bureaux in Scotland have experienced an upturn in recent years in the number of clients coming with issues related to difficulties in paying their hire purchase agreements, indicating the possible existence of financial detriment in this area.
- 5.60 With such entrenched issues affecting the sector as a whole, many have argued that addressing the poverty premium in the finance sector will require

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<sup>53</sup> [Occasional Paper No. 17: Access to Financial Services in the UK](#), Financial Conduct Authority, 2016

<sup>54</sup> [Payday loans: A mayday call](#), Citizens Advice Scotland, 2013

<sup>55</sup> [Report from the Inquiry into the Rent to Own Sector](#), All Party Parliamentary Group on Debt and Personal Finance, 2015

nothing less than a fundamental rethink of the function and operation of the field as a whole. For instance, the Centre for Social Justice recently argued that certain causes of the poverty premium – like expensive forms of credit or high bank charges – are merely manifestations of wider systemic deficiencies in the finance market; they therefore argue for the creation of new Alternative Finance Institutions (AFIs) to meet the needs of low income consumers.<sup>56</sup> These include increased backing and use of credit unions, Community Development Financial Institutions (CDFIs), social enterprises and charitable financial institutions.

- 5.61 Similarly, when examining the situation in Scotland, the Carnegie UK Trust said earlier this year that “a step-change is required in how public policy addresses access to credit”<sup>57</sup> while arguing for more robust and sustained backing of credit unions and CDFIs. Their paper further recommended that all Scots have access to forms of community lending that will help enable those struggling to access mainstream credit to reduce their cost of borrowing, support financial inclusion and address the causes of the poverty premium.

#### *Our research*

- 5.62 Our research explored the poverty premium in relation to credit, loans and insurance. As discussed above a key issue facing low income consumers is the access and availability of inexpensive credit products and the effect this has in pushing consumers towards expensive credit options. Across all the respondents to the survey, most reported using mainstream credit products over the past year, even though those on high and middle incomes were significantly more likely to have utilised credit cards than those on low incomes (80% and 63% against just 34%, respectively). By contrast, while small, those on a low income were more likely to have used credit offered by a pawnbroker (2% compared with 0% of higher earners).

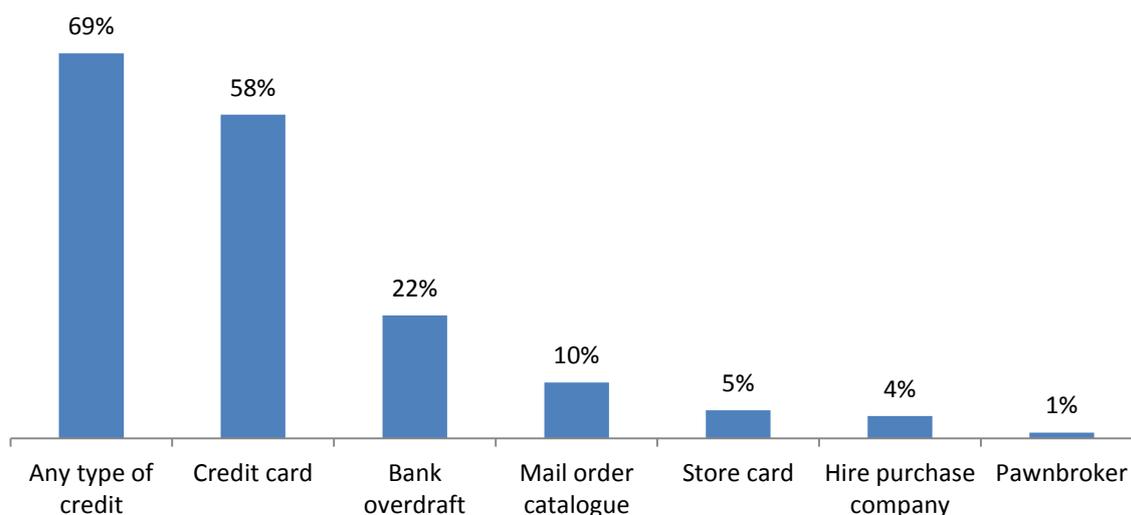
Figure 13 on the following page explores the use of forms of credit in more detail.

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<sup>56</sup> [Future finance: A new approach to financial capability](#), Centre for Social Justice, 2015

<sup>57</sup> [Gateway to Affordable Credit: Report of the Affordable Credit Working Group](#), Carnegie UK Trust, 2016

Figure 13: Use of forms of credit in the last year



5.63 Just over one in five respondents (22%) reported having used a bank overdraft facility in the past year, including 5% of low income respondents. As is becoming increasingly well known, unarranged bank overdraft facilities can be extremely expensive credit options for consumers, with the possibility of spending hundreds of pounds a year on fees, making this an area to monitor going forward.

*CAB case evidence:*

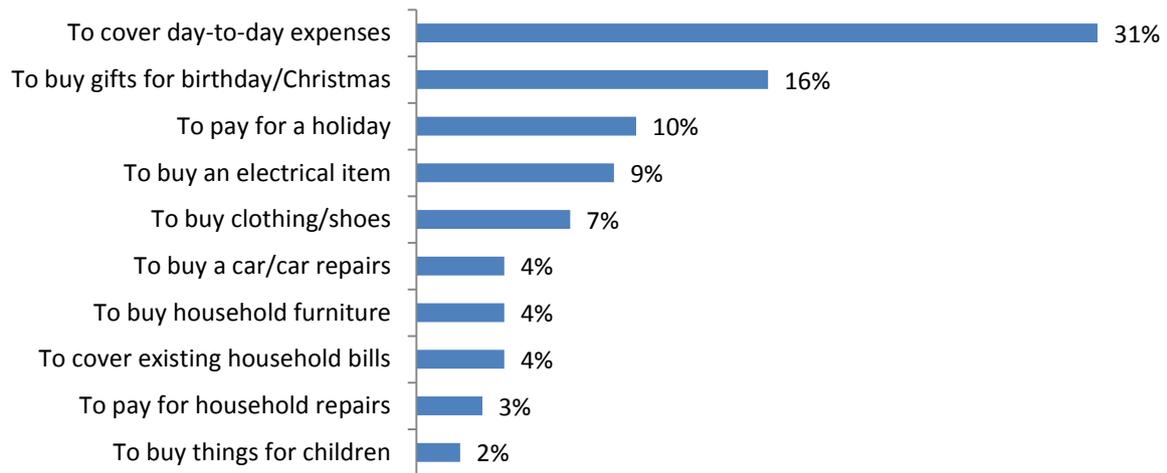
***An East of Scotland CAB reports of a client who is unable to work due to health concerns and has no money for food or electricity as she used the last of her money paying unauthorised overdraft fees. The client was given a food parcel referral and assistance with benefit applications.***

5.64 Fewer people reported taking out a loan over the past year compared to those who used credit, with 10% of all respondents reporting as having done so. Bank loans (8%) were the most popular products, followed by loans from credit unions (2%). Less than 1.5% also reported having used payday lenders in the past year, an indication as to how the popularity of these products has waned.

5.65 The research didn't reveal much in the way of statistically significant variations in terms of popularity of product by income level, though it found less low income consumers (6%) reported having taken out a bank or building society loan than middle (8%) and high (11%) earners. This could possibly indicate difficulties experienced by low income consumers in accessing these products.

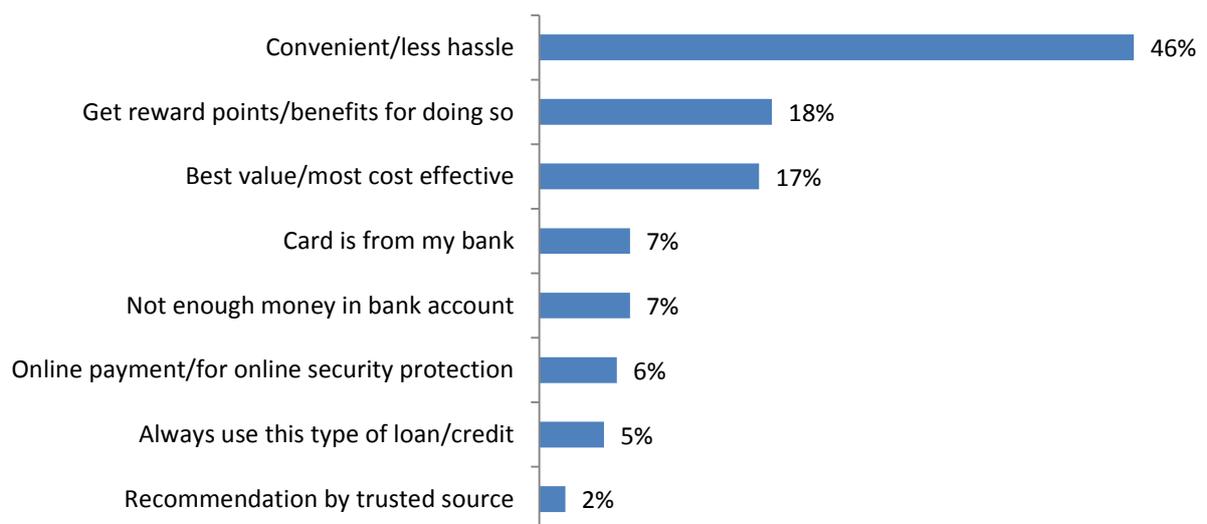
5.66 The predominant reason survey respondents had used a credit or loan product was to cover day-to-day expenses like food or transportation, followed by Christmas or birthday gifts or to pay for holidays. Analysing the figures by SIMD revealed that those living in the most deprived areas of Scotland were more likely to report than those in the least deprived to have used credit or a loan to buy gifts (22% compared with 13%).

Figure 14: Reasons for using credit or loan products



5.67 In terms of why respondents chose the credit or the loan product they did, the research revealed that it was mostly on the basis of convenience, followed by benefits that could be accrued by selecting certain products and cost effectiveness.

Figure 15: Factors determining respondents' choice of credit or loan products



5.68 While convenience dominated, the findings from the qualitative interviews suggested that low income consumers may lack full confidence in terms of choosing the right credit and loan product for them and their situation. Some

interviewees expressed frustration at not being able to fully grasp the jargon used by credit and loan providers, with several having to rely on spouses, family members or bank managers to offer them assistance. This experience corresponds with the FCA's concerns discussed in their work on consumer vulnerability referenced in the preceding section which found that complex and unclear information can act as a barrier to full engagement in the financial system.

*Interview excerpts:*

***“It can be quite tricky. I don’t really know much about APR and all that kind of stuff. I’ve never really used it, so I’ve never really had cause to ask the question what that stuff is.”***

***“Well, it’s a different kind of language isn’t it?”***

***“It’s beyond me.”***

- 5.69 In the FCA's research into Access to Financial Services, comprehension and navigation of the market was found to be stumbling blocks for consumers. The language financial providers employed to market their products was found to be a key culprit in this, as inconsistent or opaque terminology made it difficult for consumers to compare products and understand their 'true' costs.<sup>58</sup> It would appear that our findings back up this point and work should be undertaken to try and resolve this language barrier.
- 5.70 The qualitative portion of our study also revealed a number of factors that influenced one's approach to credit and debt. Age was one such factor, with older participants more likely to say that their generation "lived within its means" than their younger counterparts, which indicates a perhaps more cautious attitude to credit and loans. Another key influencer was one's past proxy experience with debt. Many reflected on occasions when friends and family struggled with debt and how it influenced their own approach towards credit and loan products. More generally, this potentially points to the importance of high quality financial advice in influencing attitudes towards credit and debt.

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<sup>58</sup> [Occasional Paper No. 17: Access to Financial Services in the UK](#), Financial Conduct Authority, 2016

*Interview excerpts:*

***“I won’t make that mistake. I’ve seen the consequences of what it can do.”***

***“Not to take on debt was probably one of the biggest lessons [our mother] taught us... because she went through a hell of a time herself with people threatening her at the door and stuff like that, because she wasn’t keeping up with the payments.”***

- 5.71 Unsurprisingly, those who were in a stronger financial position displayed more positive and relaxed attitudes towards credit and loan products as they were confident that any debt they would accrue would be manageable.

*Interview excerpt:*

***“I use the credit card just to keep the account open... I actually planned it so I always had six weeks to get the money together. I know the bill would maybe come out in the second week of the month, so I would wait till after that date and then if I go to buy something I would use that so it gave me six weeks to get the money together. But, now I just feel the credit card is a safety net.”***

- 5.72 Some interview participants appeared aware that they were likely paying more in the long run, though there were a number of individuals who took out a credit or loan product without understanding what the full costs of that product might be.

*Interview excerpts:*

***“I think I sort of buried my head in the sand and just thought, ‘right, I need to get money to pay bills’. I was desperate.”***

***“When I’m not working I sometimes have to take [a loan] because it’s [my daughter’s] birthday and Christmas at the same time. You get a loan and you pay just about double back, which is disgusting. So, say I borrow £200, I pay four back nearly, but if my daughter needs her birthday and Christmas you’ve got no choice really, so you’re put into a situation that you can’t get out of, it’s really bad.”***

- 5.73 This can be contrasted with the responses received when discussing energy bills, where there was some awareness that users of PPM meters were paying more for their energy than those on credit meters but continued to do so in part because of the flexibility PPMs offer. While there may be awareness of higher costs associated with certain products (like payday loans) in the finance sector, people in the qualitative portion of the research largely appeared compelled to utilise some of these high cost options out of sheer necessity.
- 5.74 This lends further credence to the arguments expressed by those looking to expand and strengthen the alternative finance and CDFI sector. One of the main CDFIs in Scotland, Scotcash, provides an interesting case study in this regard. Formed in 2007 with backers including Glasgow City Council, Glasgow Housing Association, Glasgow Community Planning Partnership and the Royal Bank of Scotland, it provides a range of financial services to mainly deprived consumer base that may find they are shut out from accessing more mainstream options like credit unions or traditional high street bank finance. The products and services provided by Scotcash include loans, basic bank accounts, affordable credit options and integrated money and advice offerings.
- 5.75 An independent evaluation of Scotcash in 2011 found that it had been successful in easing financial exclusion amongst its users in Glasgow and was one of the top CDFI institutions operating in the UK. At that point it had issued around 12% of all the micro-loans in the UK while enjoying a rate of arrears of just 4.4%, well below the UK average of 13.3%.<sup>59</sup> There is scope for interested stakeholder bodies like the Scottish Government, local councils, housing associations, employment and consumer advice bodies and others to consider how CDFIs could be more widely promoted across other deprived parts of Scotland.

### *Repayments*

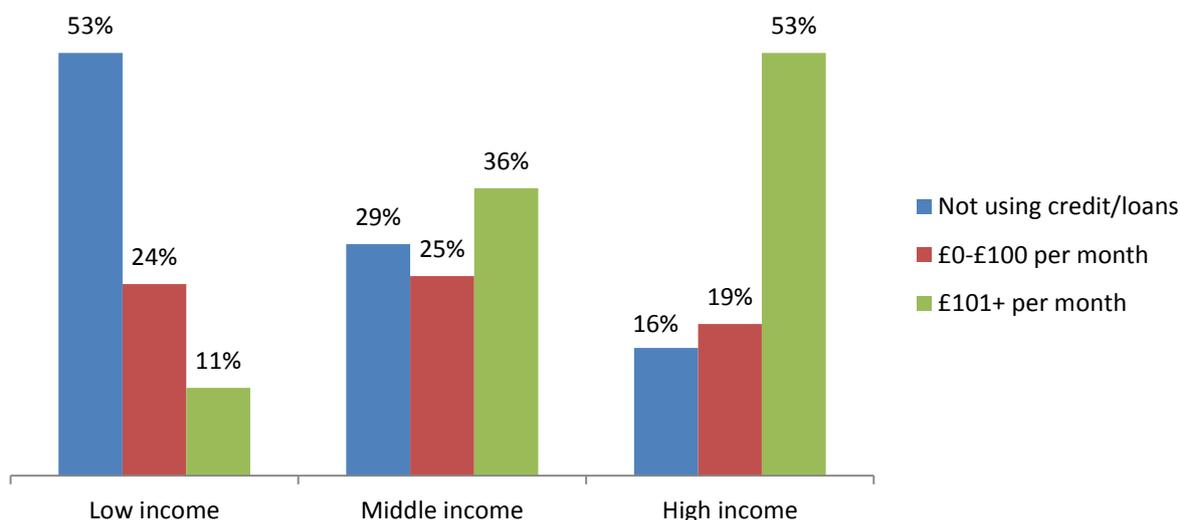
- 5.76 Figure 16 (below) illustrates the repayment burden faced by our survey respondents, broken down by income. As can be seen, the majority of low income respondents surveyed were not using credit or loan products, compared to 45% of those on a middle or high income. This, again, is something that could perhaps point to the fact that low income consumers face difficulties in accessing credit and loan products on the whole.
- 5.77 11% of low income respondents reported repaying up to or over £100 per month, something that could possibly represent a large proportion of

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<sup>59</sup> [Scotcash Impact Evaluation Report: Executive summary](#), Paul Mosley, 2010

someone's take home pay. While we were unable to determine if this was due to multiple credit or loan debts or expensive terms, this nevertheless serves to demonstrate the level of costs faced by this group and reinforces the need to explore cheaper credit options for consumers.

Figure 16: Level of credit or loan repayments



5.78 The research also looked briefly at the insurance market for manifestations of the poverty premium amongst respondents. Products like home contents insurance and motor insurance can often be more expensive for low income consumers due to where they live. Indeed, previous research has shown that low income consumers can pay as much as 48% more for motor insurance and 93% more for home contents insurance.<sup>60</sup>

*CAB case evidence:*

***An East of Scotland CAB reports of a client who needed a food parcel referral after a £70 monthly payment for car insurance, gas and electricity bills left him struggling to make ends meet.***

5.79 Our survey revealed possible evidence of the poverty premium in this area. Although a clear causal link wasn't able to be made, some low earners were found to be paying similar amounts for their home contents and motor insurance as those on higher incomes; given the likely difference in the total value of goods being insured by these two groups, it is therefore possible that low income consumers are paying a premium for their insurance cover. This

<sup>60</sup> [The UK Poverty Rip-Off: The poverty premium 2010](#), Save the Children, 2011

is particularly noticeable in the £21-£60 range, where low, middle and high earners were clumped relatively close together.

Figure 17: Monthly motor and/or home contents insurance payments by income



5.80 When looking at the repayment levels by area of deprivation, 44% of those in the most deprived areas of the country were paying between £21 and £60 a month, compared to 52% of those living in the least deprived areas.

Figure 18: Monthly motor and/or home contents insurance payments by income and deprivation level



5.81 The qualitative research also uncovered a feeling of confusion amongst participants regarding the way insurance companies calculated their premiums, with some having experienced steep price rises even when just moving to a different house in the same neighbourhood. Therefore, there may be scope for insurance companies to be more transparent about the methods used to calculate their prices.

*Interview excerpts:*

***“I moved about four or five hundred yards and it didn’t quite double but it went up quite some.”***

***“I’ve only moved 400 yards from where I was before and they tried to bump up my insurance.”***

- 5.82 Again, the importance of online access cannot be underestimated when considering the costs of insurance. Research has shown that the majority of home insurance policies, for instance, are now bought online and 40% of those purchasing new policies used a price comparison website to check the price competitiveness of different policies.<sup>61</sup> This again highlights the centrality of computers and internet in unlocking the best deals for consumers.
- 5.83 Of concern, low earners were less likely than those on higher incomes to say that they had home insurance: only 58% of this cohort had home contents insurance, compared to nearly all (96%) of high earners. Similarly, low earners were less likely than those on higher incomes to say they had automobile insurance – only 43% had this type of insurance compared with 96% of high earners. Cost was identified as a key issue for consumers, with a number of qualitative participants saying the affordability of monthly payments was an issue keeping them from taking out insurance. This corresponds to findings from the Financial Inclusion Commission which highlighted the fact that home contents insurance is viewed by many of those on a low income as “irrelevant and unaffordable”.<sup>62</sup> Going without this layer of protection against loss obviously can impose a sizeable cost if any goods that are stolen or damaged need to be replaced at cost and represents a significant gap in protection for low income consumers.

*Interview excerpt:*

***“The money we get is spread very thinly. I think we were quoted £11 a month [for home contents insurance], but I can’t afford that.”***

- 5.84 Although not utilised by survey respondents in great numbers, hire purchase arrangements for white goods were used by some participants in the interview phase of the research. Taking a look at these responses in general revealed

<sup>61</sup> [Home insurance – UK – December 2015](#), Mintel, 2015

<sup>62</sup> [Financial Inclusion: Improving the financial health of the nation](#), Financial Inclusion Commission, 2015

that, in common with other expensive forms of credit and payment systems like PPMs, people appreciate the flexibility hire purchase contracts give them. One interviewee in particular, who had a poor credit rating due to Council Tax arrears and found it difficult to obtain other types of credit, appreciated the breakdown service offered by Brighthouse, one of the main hire purchase firms:

*Interview excerpt:*

***“Well, we decided on Brighthouse, it’s a tumble dryer and I’ve never had a tumble dryer last more than a year with my family and they do like all repairs and if it breaks down and can’t be fixed they will replace it before the end of the contract... [I’m] probably [paying] more, but like I say it’s the comfort of knowing that they’ll fix it.”***

- 5.85 In one example from the qualitative interviews, one participant, who was already paying back a bank loan, said they were:

*Interview excerpt:*

***“desperate for a washing machine and didn’t have the money to go and just pick one up... There was an extra £300 [interest] or something on top... It did [bother me], but there is nothing, your hands are tied, you need it, but you’ve not got the cash upfront to do anything about it.”***

- 5.86 This case helps illustrate how those in precarious financial circumstances may feel pressured to use hire purchase for essential goods, if no other options exist. The extra costs in the form of extremely high interest rates are tolerated if it means gaining access to the goods they require.

## 6 IMPACTS OF THE POVERTY PREMIUM

- 6.1 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. Recent research by CAS examining the effect of gaps in income on CAB clients found that people “readily cut back on basic essentials”, including rent, Council Tax, heating and food.<sup>63</sup> These effects were found to be so severe that a worrying number of clients were presenting to bureaux having not eaten for days. Indeed, CABs across Scotland have seen clients destitute and unable to buy food after struggling to afford payments for essential goods and services: Scottish CABs dealt with over 8,200 new issues relating to food banks and parcels in 2016/17, an increase of 11% from the year prior.

*CAB case evidence:*

***An East of Scotland CAB reports of a client who asked for a food parcel voucher as recent payments for car insurance and electricity meant he had no money left over for food.***

***A South of Scotland CAB reports of a client who has run out of money, including a small Crisis Grant, after topping up his energy PPM and requested a food parcel.***

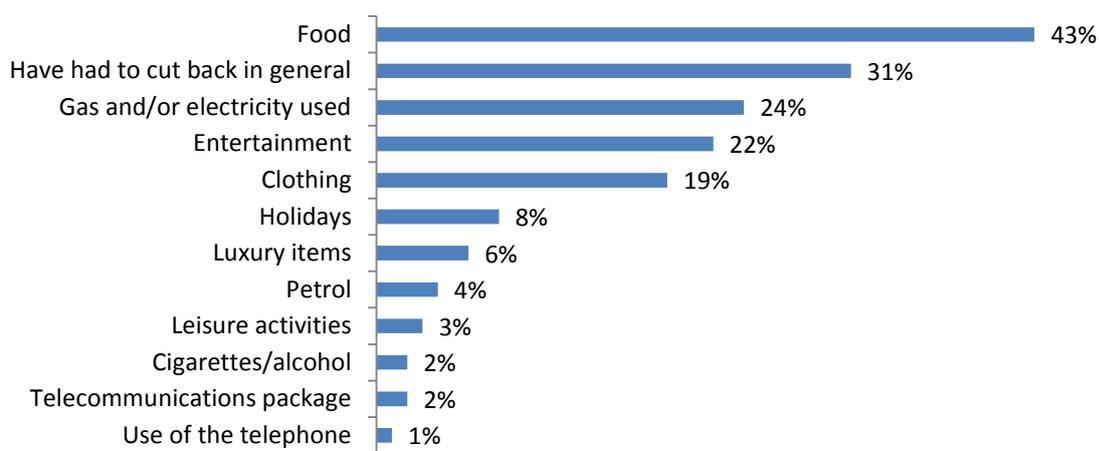
***An East of Scotland CAB reports of a client who does not have money to pay for his liquefied petroleum gas heating system as payments to his supplier were stopped after his bank account was closed due to debt. The client suffers from Chronic Obstructive Pulmonary Disease and angina, and additionally frequent chest infections, sometimes requiring hospital treatment. He believes this has been exacerbated by damp in his home due to inadequate heating. The client also cannot afford to pay his life and buildings insurance policies, the latter of which may make him in breach of his mortgage terms and conditions.***

- 6.2 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.

<sup>63</sup> [Living at the Sharp End: CAB clients in crisis](#), Citizens Advice Scotland, 2016

- 6.3 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.
- 6.4 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.

Figure 19: Items of expenditure cut back on



- 6.5 The research found that of those who cut back on food, nearly 1 in 10 was on a low income. While low income consumers shouldn't feel as though they are forced to cut back on any household essential simply due to their position in the market, it is perhaps most worrying to see food expenditure cut back the most given the detrimental impacts this can have on one's health. The following responses in the qualitative portion of our study provide some indication of the experience of these individuals:

*Interview excerpts:*

***"Food is at the bottom of my list. It's just whatever's left."***

***"I'm skinny, everybody thinks it's from the cancer, but it's just from not eating."***

***“You can see I’m small anyway, but that’s because I can’t eat the food I would like to eat and what I really need to put the weight on. I’ve been to the doctors and they sent me to a dietician basically and they are telling me to do this and do that. That’s all right if you’ve got the money.”***

- 6.6 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.
- 6.7 Exacerbating these concerns is the fact that low income consumers can face an additional poverty premium in the form of food shopping which can act to further stretch incomes that are already under great strain. Previous research has found that those on low incomes frequently live in areas not well served by large supermarkets and therefore find they are unable to get the best deals on food through multi-buy offers.<sup>64</sup> Isolated rural consumers also may be unable to reach their nearest supermarket because of the distances and subsequent travel costs involved.
- 6.8 Illustrating this point, research conducted by the Dumfries and Galloway Citizens Advice Service found that food prices were generally higher in the more disadvantaged areas of Dumfries and Galloway, with consumers paying up to 55% more for the same items than those living a few miles away.<sup>65</sup> The research suggested a greater awareness and use of online grocery shopping could help address this, but that this comes with its own set of concerns; namely, a requirement for internet access that those on a low income may not enjoy and extra charges for certain delivery times or for small baskets of shopping. Nonetheless, exploring sensible ways in which barriers to online food shopping for low income consumers could be reduced would be worthwhile going forward.
- 6.9 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 vast 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

<sup>64</sup> [Food, Fuel, Finance: Tackling the poverty premium](#), Church Action on Poverty, 2014; [The Poverty Premium in Tower Hamlets](#), Toynbee Hall, 2014

<sup>65</sup> [The Cost of Living: D&G Shop Check](#), Dumfries and Galloway Citizens Advice Service, 2015

levels reached their height towards the end of the month when money has been stretched to its limit.

*Interview excerpts:*

***“I experience anxiety on a day-to-day basis, but especially when it is before pay day, I tend to stress a lot more.”***

***“When I was going through losing my tax credits and that was a really bad time I couldn’t sleep, it affected [my] eating, I felt tired and crabbit [bad tempered] all the time.”***

- 6.10 Relationships were also found to have suffered, a common theme CAS research has found amongst those struggling to get by.<sup>66</sup> 13% of those on a low income said they had experienced an impact on their relationships with family, friends or partners as a result of the poverty premium, compared to just 3% of those on a high income. Of great concern is the fact that households with children were found to be twice as likely to say their relationships had suffered (17%) than those without children (8%).

*Interview excerpts:*

***“Sometimes the younger one says, ‘I wish we weren’t so poor’. I say: ‘we’re not poor; your friends get spoiled rotten’. So, it’s getting to him. [He sees] one family who have a lot and then we’ve got nothing.”***

***“Our relationship suffered when [my daughter] wanted to go with her friends swimming and things and I didn’t have the money. Obviously, she would be upset, so I would get a mouthful, she would stamp the feet and the door would slam, and I wouldn’t see her for a couple of hours, and I would be worrying sick. When you’ve not got [the money] and all her friends are going somewhere and she’s the only one that can’t go, how embarrassed she must have felt. That makes me feel so small.”***

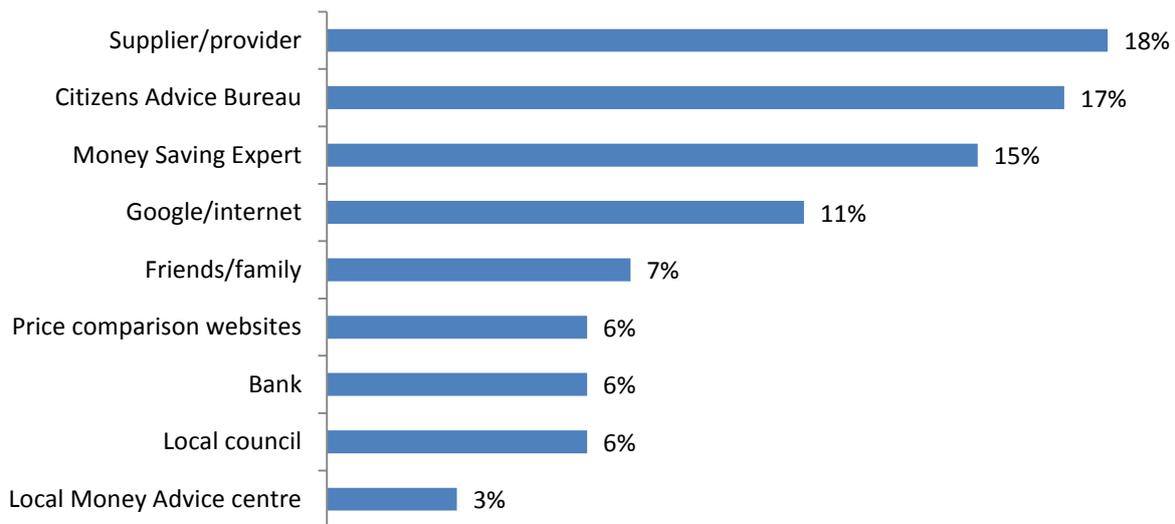
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<sup>66</sup> [Living at the Sharp End: CAB clients in crisis](#), Citizens Advice Scotland, 2016

## 7 SUPPORT AND ADVICE

- 7.1 Given the widespread issues associated with the poverty premium that manifest themselves across policy areas, one might expect the amount of advice to be given out on how best to address some of these problems to reflect this breadth. However, the research found that just 21% of those surveyed had sought information or advice in relation to their bills or repayments, with no major differences in advice seeking behaviour by income or deprivation level. Even those in arrears were not utilising advice services as much as might be expected: 36% of those with arrears sought help, compared to 20% amongst those who were not behind on their bills.
- 7.2 After going direct to the supplier/provider for information or advice, citizens advice bureaux were the next most popular source of assistance, as illustrated in Figure 19. The 17% figure is just below research which has suggested approximately 20% of Scots have visited a CAB in recent years.<sup>67</sup>

Figure 20: Sources of information or advice on reducing bills and repayments



- 7.3 The majority of those who went for help and advice had a positive experience. Those that had approached CABs specifically reported how they were able to get assistance with things like budgeting and help with creditors.

<sup>67</sup> [The Continuing Financial Benefits of Advice Provision to the Common Good: The example of the Citizens Advice Service in Scotland](#), The Fraser of Allander Institute for Research on the Scottish Economy, 2014

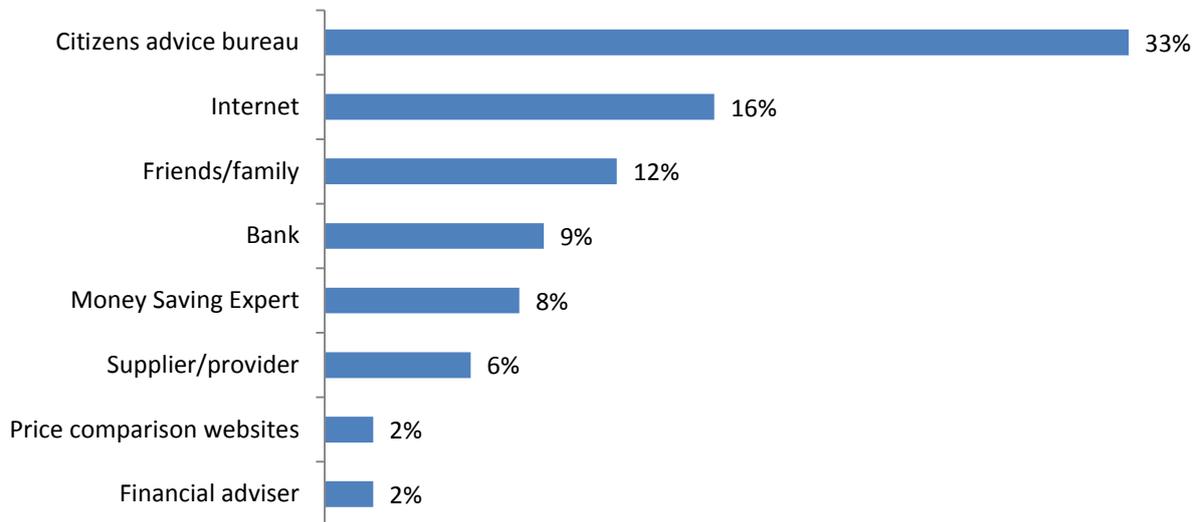
*Interview excerpts:*

***“If it hadn’t been for the citizens advice bureau, I probably wouldn’t be getting my PIP now. Honestly I don’t know what people would do if the citizens advice bureau wasn’t there to tell you the truth.”***

***“[CAB] seemed to get the creditors off my back,”***

7.4 Even among those who had not sought any advice, when asked where they would go for such help in the future, 33% said they would visit a CAB, followed by 16% who said they would go online for assistance and 12% who would approach friends and family.

Figure 21: Likely future sources of information or advice on reducing bills and repayments



7.5 Highlighting the importance of the bureaux network to those in vulnerable situations, 40% of low income respondents said they would visit a CAB compared to 29% of high income respondents. By contrast, 38% of those on a high income said they would look for information and advice online, compared with 24% of those on a low income.

7.6 The qualitative portion of the study revealed some individuals who could benefit from advice yet hadn’t sought it. This was generally because they weren’t aware of the help that was available, or preferred other routes to getting assistance.

*Interview excerpts:*

***“I didn’t know there was anyone we could go to.”***

***“I feel bad phoning [suppliers] to say ‘I can’t pay you the money’.”***

- 7.7 It is clear therefore that more consumers can likely benefit from advice and support and that greater effort should be made in getting some of these individuals to more actively pursue help when it is needed.

## 8 CONCLUSION AND RECOMMENDATIONS

### CONCLUSION

- 8.1 This report has helped demonstrate the manifestations of the poverty premium on low income consumers in Scotland, helping to show the effect high cost premiums can have on those living in or near poverty. There are indications as to the nature of the poverty premium across energy and telecommunications amongst survey respondents, particularly as it relates to prepaid billing options. Both prepayment meters for energy and Pay As You Go options have certain premiums associated with them and though some respondents realised they may be paying more, there was a sense that this difference was slight.
- 8.2 Analysis of the poverty premium in the credit and loans sector helped illustrate some of the issues low income consumers have in this area. While some respondents indicated that they were aware that they were possibly paying more for credit, or that some products came with a premium, there was a sense that others had not considered or adequately anticipated the costs associated with certain credit and loan products. Insurance was also shown to have similar effects, where those on a low income were possibly paying a premium for their home contents and motor insurance when compared to those on a higher income.
- 8.3 Overall, the results across sectors demonstrated the importance of digital skills and access in alleviating the effects of the poverty premium. Ability and access to the internet enables consumers to more effectively compare deals and enables individuals to become more active consumers. It can, therefore, be argued that ensuring continued proliferation of access points and, importantly, training for those who want to learn how to get online and use the internet is of the utmost importance if efficient and effective markets are to be achieved.
- 8.4 The effects of the poverty premium were shown to have an impact on the physical and mental health and wellbeing of low income consumers, including a risk of being pushed into destitution and unable to afford basic purchases like food. This same group was also more likely to report detrimental impacts on their personal relationships, including with their family, friends or partners as a result of being unable to pay bills or make repayments on time. In particular, parents frequently described how their relationships with their children suffered, highlighting a worrying trend and indicating the level of strain the poverty premium can have.

- 8.5 Despite these and other impacts, just one in five of those surveyed had sought advice on how to alleviate some of these problems, indicating the need for both increased and better targeted advice provision.
- 8.6 This report should not simply exist in a vacuum; indeed, it is designed to be the first step for CAS in a programme of action designed to bring together key stakeholders together to address its root causes of the poverty premium. In the months to follow, CAS will be engaging with key groups in industry, the government and third sector in order to find workable solutions to the problems identified in this and other research and we welcome the opportunity to work with any organisation similarly committed to fundamentally addressing these issues.

## RECOMMENDATIONS

- 8.7 The research suggested a number of ways in which CAS could work with other stakeholder organisations in order to alleviate the effects of the poverty premium:
- Working with suppliers and regulators in the energy, telecommunications, finance sectors 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 work with CAS and others to 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.
- Working with government, consumer organisations and third sector organisations to:
  - **Raise awareness of the cost of premiums associated with particular payment methods or forms of credit.** Stakeholders across these sectors should 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.

- **Improve the ability of people living in rural areas to use online grocery shopping.** Those without means of transport to get to large supermarkets for the best value food offers should be assisted. Supermarkets should work to ensure that delivery and other charges do not unduly harm or deter low income consumers living in other areas from using online grocery shopping.

8.8 The research findings, in conjunction with CAS case evidence, also leads 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.



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**Citizens Advice Scotland**

**Spectrum House, 2 Powderhall Road, Edinburgh EH7 4GB**

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