

Paying more to be poor



THE POVERTY PREMIUM IN ENERGY, TELECOMMUNICATIONS AND FINANCE IN SCOTLAND

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. 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*.

Past estimates have found that low income consumers can pay on average 10% more for essential goods and services, like energy and telecommunications, than their better-off counterparts and CAS commissioned research to explore the issue in-depth here in Scotland. This research investigated manifestations of the poverty premium in energy, telecoms, credit, loans and insurance and examines some of the impacts it can have on the lives of low income consumers.

This work was carried out by Ipsos MORI over 2015 and 2016. A telephone survey of 1,000 consumers in Scotland (aged 16 and over) across income levels was conducted in order to first identify the most important issues faced by low income consumers when compared to the experiences of higher income consumers. These issues were then explored in greater detail in 32 in-depth follow-up interviews amongst selected low income participants of the telephone survey.

What did we find?

1. The poverty premium is a real experience for some low income consumers in Scotland, with indications this group could be facing undue financial detriment when paying for energy, telecoms, credit, loans and insurance.
2. While some low income consumers consciously chose more costly payment options for reasons of flexibility and/or convenience, there was also a feeling amongst some respondents that they felt unable to lessen their financial burdens.
3. The poverty premium was found to negatively affect the physical and mental health of low income consumers as it heightened the already detrimental effects of living at or near the poverty line. Cutting back on food was common and relationships with friends and family were found to suffer, especially relationships between parents and children.
4. Seeking advice from citizens advice bureaux was found to be one of the most common methods of help. Many who had done so said bureaux advisers had helped to resolve their problems.

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¹ Addressing the Poverty Premium: Approaches to regulation, Donald Hirsch, 2013

KEY FINDINGS

Energy



■ 27% of those on a low income reported using more expensive prepayment meters (PPMs) compared with 12% of middle income and 1% of high income respondents. In addition, 20% of low income consumers – and 24% of those using PPMs – reported spending more than £100 per month on their energy bills.

■ Only 24% of all respondents switched their energy supplier in the past three years, with those living in the most deprived areas of the country more likely to consider switching to be a hassle. Those with internet access at home were more likely to have switched overall.

“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.”



² Making Communications Work for Everyone: Initial Conclusions from the Strategic Review of Digital Communications, Ofcom, 2016

■ Those who had negative experiences of switching energy supplier in some cases would not consider switching again.

Telecoms



■ 18% of low income respondents did not use internet, landlines or cable or satellite television compared to less than 1% of high earners. Overall, 69% of low earners reported using the internet at home, with 98% of those on a high income reporting using home internet.

■ 8% of all 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 possibly at risk of financial detriment resulting from rising line rental prices.²

■ 47% of those on a low income reported using frequently more expensive Pay As You Go (PAYG) payment methods for their mobile phones compared with 21% of middle and 9% of high income earners.

■ Low income consumers were less likely to have switched suppliers in the last three years than their more affluent counterparts, with 31% saying they had done so compared to 39% on a high income. Overall, 38% of those with internet access switched suppliers in the past three years, 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.

■ Some low income consumers found home contents insurance policies unaffordable, leaving them unprotected in case of accident or theft.

Support and advice



■ 21% of respondents said they had sought information or advice in relation to their bills or repayments, with citizens advice bureaux one of the most common routes for help.

■ Those who reported going to a citizens advice bureau for advice had generally positive experiences in getting their problem addressed.

■ Among those who had not sought any advice, a plurality (33%) said they would go to a citizens advice bureau, with 40% of low income respondents saying they would do so.

IMPACTS OF THE POVERTY PREMIUM

43%

Cut back on food

19%

Increased stress and anxiety

24%

Cut back on gas and/or electricity used

13%

Negative impact on their personal relationships with friends or family

22%

Cut back on social activities

10%

Negative effects on physical health



NEXT STEPS

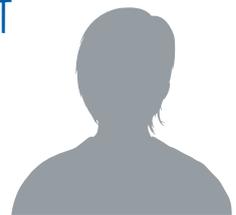
Consumer markets are imperfect and inevitably benefit some more so than others, something that is true up and down the income scale. However, markets work best when consumers are able to take an informed and active approach to products and services. Doing so helps ensure they function in the best interests of consumers and businesses alike and is something those with an interest in fair and equitable outcomes for consumers should

strive to achieve. Those on a low income should not be financially penalised simply due to their weaker market position.

Our research suggests that market mechanisms, despite operating in a regulatory environment designed to encourage active consumer behaviour, are failing low income consumers in crucial ways. This has meant that these consumers have effectively become marginalised while businesses focus on those segments of the market that are perceived to be more lucrative.

There is work to be done by businesses, governments, regulators and consumer advocacy organisations to address the poverty premium and ensure low income consumers are receiving a fair deal. CAS is committed to

"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."



"I EXPERIENCE ANXIETY ON A DAY-TO-DAY BASIS, BUT ESPECIALLY WHEN IT IS BEFORE PAY DAY, I TEND TO STRESS A LOT MORE."



taking forward a programme of action with interested stakeholders across industry, government and finding ways to alleviate the causes and effects of the poverty premium and we welcome the opportunity to work with any organisations similarly committed to fundamentally addressing this issue.

WHAT WILL CAS DO?

- ✔ Work with suppliers to bring premiums down and promote initiatives to support consumers who find themselves in vulnerable financial circumstances.
- ✔ Raise consumer awareness of the cost premiums associated with particular payment methods or forms of credit and of routes by which financially vulnerable consumers can receive help.
- ✔ Encourage the provision of consumer-friendly information and advice, particularly relating to energy and credit products.
- ✔ Improve the ability of low income consumers to get online and effectively use consumer-empowerment tools, like price comparison websites.
- ✔ Work with stakeholders in the public, private and third sectors to promote and encourage greater alternative finance provision like credit unions and community development financial institutions that can effectively cater to low income consumers.
- ✔ Encourage supermarkets to explore options to assist low income consumers who find it difficult to buy food cheaply by looking at opportunities through their online shopping channels.



For more information

The full report can be found on Citizen Advice Scotland's website at www.cas.org.uk/publications/paying-more-be-poor

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