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Poverty Premium in Scotland

For Citizens Advice Scotland

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Executive summary

This report contains the findings from research on the Poverty Premium in Scotland, conducted by Ipsos MORI, on behalf of Citizens Advice Scotland.

The research was conducted using a mixed-methods approach comprising a survey of 1,000 consumers in Scotland (aged 16 and over) and 32 follow-up in-depth interviews among selected low income respondents to the survey. The specific issues covered in the research were: consumers' experiences of using energy and telecommunications services, insurance providers and credit and loan companies; the impacts of the poverty premium; and any financial support or advice sought by consumers.

The research was carried out between 23 November 2015 and 19 February 2016.

Energy and telecommunications services

The majority (78%) of survey respondents had both mains gas and electricity in their homes, while one in five (21%) had electricity only. Almost three quarters (71%) used Direct Debit to pay for their energy bills, while 13 used prepayment meters (PPMs) and a similar proportion (13%) paid by cash, card or cheque upon receipt of a bill (9%). Low income respondents were less likely than middle and high earners to pay their bills through Direct Debit (49%, compared to 73% and 92% respectively) and more likely to have a PPM (27%, compared to 12% and 1% respectively).

Almost all (92%) survey respondents owned a mobile phone, while 88% had a landline phone, 86% had the internet and just over half (55%) had cable or satellite television. Almost a quarter of low income respondents did not have a landline phone, owning a mobile only, and as such they may have been paying a premium for phone calls.

The majority of all mobile phones owners (68%) paid their bills by Direct Debit, while 28% used 'pay as you go' phones. Again, payment by Direct Debit was much less common among those on a low income than those on a middle or high income (49%, compared to 77% and 87%), while the reverse was the case in respect of 'pay as you go' (47% on a low income, compared to 21% and 9%).

Survey respondents who chose to pay their bills by Direct Debit did so because they found it convenient (78% for energy and 71% for mobiles) and because they felt it was cheaper than other methods (34% for energy and 15% for mobiles). Respondents who used prepayment methods did so because they found this an easier way to monitor usage or manage expenditure (33% for PPM and 15% for pay as you go) or they had always paid in this way (17% for PPM and 5% using pay as you go).

Switching suppliers

Just over a third (35%) of survey respondents had changed telecommunications supplier in the last three years, while a quarter (24%) had changed energy supplier.

Low income respondents and those in rural areas were much less likely than average to have changed an energy supplier in the last three years. Nineteen per cent of low income respondents had changed energy supplier, compared to 31% on a high income, while 16% in rural areas had changed, compared to a quarter in urban areas.

Almost half of respondents (45%) who had switched an energy supplier had used an on-line comparison service to do so, while 13% had phoned the supplier directly, 9% had been phoned by the supplier and 8% had used the supplier's website. The findings in respect of telecoms were slightly different: 34% had phoned the supplier directly, 18% had gone to a high street store, 14% has used the provider's website and 13% had used an on-line comparison site.

Low income respondents were less likely than those on a high income to have used an on-line comparison service to switch: 19% of them had switched energy supplier and 12% had switched telecoms supplier using this method, compared to 71% and 21% of those on a high income.

While respondents generally found the switching process to be a positive experience, a small number reported negative experiences – usually due to problems they had experienced with their old suppliers during the switching process.

Insurance

The majority of survey respondents (83%) had home contents insurance and almost three quarters (73%) had motor insurance. Lower income respondents were less likely than those on higher incomes to have either type of insurance: 58% had home contents insurance and 43% had motor insurance, compared to 96% of high earners in each case.

Sixteen per cent of respondents paid £20 or less per month for motor and/or home contents insurance, while almost half (48%) paid between £21 and £60 and 18% paid more than £60. Low income respondents and those in the most deprived areas were more likely than other groups to pay under £21 per month for insurance. Similar proportions across all income and deprivation bands were paying between £21 and £60 per month.

Food shopping

Some respondents were struggling to afford food due to rising prices, particularly towards the end of the month when they had less money to spare. As such, they were rarely able to take advantage of the multi-buy deals offered by supermarkets.

A few people commented that the best deals tended to be found in larger supermarkets but that these were sometimes difficult to get to so there were added travel costs to consider. This was particularly an issue for those living in rural areas, who generally had fewer retail options available to them locally.

Credit and loans

Around seven in ten (69%) respondents had used some form of credit in the last year: 58% had used a credit card, 22% had used a bank overdraft facility and roughly half as many (10%) had bought goods in instalments from mail order catalogues. Smaller proportions had used other forms of credit.

Higher and middle income groups were more likely than those on lower incomes to have used credit cards (80% and 65% versus 34% respectively), whereas low income groups were more likely to have used credit offered by a pawnbroker (2% versus 0% of higher earners).

One in ten respondents had taken out a loan in the last year – 8% from a bank or building society, 2% from a credit union and smaller proportion from a loan company (less than 1.5%), or credit union (0.5%). These results were relatively consistent across different subgroups of respondents, including different income groups.

Only around a quarter (23%) of the survey respondents who had used credit or applied for a loan in the last year, had first checked their credit rating with a company like Experian. The proportion was smaller still among low income groups (10% versus 28% and 29% of middle and high earners respectively). From the qualitative research it was clear that respondents often had difficulty understanding the language and jargon used by credit providers. Reflecting this, while some respondents were acutely aware that their use of credit or loan products meant they were paying more in the long run, this was by no means universally the case.

Three in ten (29%) of all survey respondents were paying more than £100 per month on credit or loan repayments, including one in ten (11%) of those on a low income. Just over half of all those making repayments said they usually met these in full each month, while 21% said they paid more than the minimum amount required and 8% said they paid the minimum or less. The latter figure rose to 18% among low earners.

Impacts of the poverty premium

Around one in ten (8%) respondents said the cost of their bills or repayments had resulted in their having to cut back on expenditure. The figure rose to 15% among low income groups (versus 2% of high earners). The specific items of expenditure respondents had most commonly had to cut back on were food (43%), gas and electricity and entertainment (22%). Around a third (31%) had cut back in general.

One in five respondents (19%) said they had experienced stress or anxiety as a result of difficulties paying bills or making repayments, and roughly half as many (10%) said their physical health had suffered. Low earners were among those most likely to have experienced these negative effects. Indeed, almost a third of this group had experienced stress or anxiety and 20% had experienced physical health problems (compared to 5% and 2% for high earners). Among those in arrears, the figures were higher still (57% and 43% respectively compared to 16% and 8% of those without arrears).

One in ten (9%) survey respondents said their relationships with family, partners or friends had suffered as a result of difficulties paying bills and making repayments. As in the case of health problems, relationship difficulties tended to be most prevalent among those on a low income (13%, compared to 3% of high earners) and, more especially, those in arrears. Indeed, almost half (42%) of those in arrears said they had experienced such difficulties (compared to 6% of those without arrears).

Support and advice

One in five (21%) respondents had sought information or advice on how to reduce their bills or repayments. While those in arrears were more likely to have sought advice than those who were not, the figure was still well below what might be expected (36% versus 20% of those without arrears). Those who had sought information or advice most commonly said they had contacted the service provider concerned (18%), CAB (17%) or the Money Saving Expert website (15%).

Most of those who had sought advice or information described the experience in very positive terms. For example, those who had approached CAB described how the organisation had helped them to budget, claim benefits that they were entitled to, develop repayment plans, and/or generally smooth their relations with suppliers or creditors.

Conclusions and recommendations

The research uncovered clear evidence of a 'poverty premium' in all three of the key markets considered – energy, telecommunications and credit – but particularly in the energy sector. At the same time it pointed to a number of ways in which CAS might work to lessen the poverty premium burden. These included:

- Working with the regulators and the suppliers in the key sectors, but particularly the energy sector, with a view to:
  - putting pressure on suppliers to bring premiums down.
  - encouraging suppliers to make their customer information and advice simpler; particularly that relating to different tariffs.
  - ensuring information relating to different deals is made accessible for consumers without internet access at home, and promoting awareness of these alternative methods by which they can contact suppliers.
  - encouraging suppliers to more proactively offer support and payment plans to people experiencing financial difficulties.
- Working with the local councils, consumer organisations and third sector organisations with a view to:
  - raising awareness of the cost premiums associated with particular payment methods or forms of credit.
  - raising awareness of organisations that are available to help the public with financial difficulties generally, and problems relating to bills and credit payments specifically.
  - supporting 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.
  - improving the ability of people living in rural areas to use online grocery shopping.

1. Introduction

Background

The 'poverty premium' refers to the tendency for low income consumers to pay more than those on higher incomes for essential goods and services – including energy and telecommunications services, insurance policies and credit contracts – owing to the nature of pricing structures, products and tariffs available in the markets concerned[1].

The existence of a poverty premium has been widely acknowledged in research dating from the 1960s, and its effects have been studied in a number of areas including food, finance and energy[2]. Research published by Save the Children in 2010 estimated that the poverty premium can cost a typical low income family more than £1,280 annually[3]. More recently, Hirsch has calculated that paying higher prices for utilities and credit can raise the cost of a minimum household budget by around 10 per cent, and that this 10p in the pound premium can contribute significantly to poverty and hardship[4]. Hirsch's report pinpointed the root cause of the poverty premium as being the fact that essential regulated services are, in general, designed to benefit and attract higher income consumers. Lower income consumers are limited in their ability to counteract this because they are constrained in their consumer choices by their financial circumstances and other factors.

Other research has suggested that the attitudes and behaviours of lower income consumers may also contribute to the poverty premium – in the sense that this group often lacks confidence in its purchasing decisions and ability to negotiate better deals, and is generally less likely to seek out such deals[5].

Citizens Advice Scotland (CAS) believes a new approach is needed so that a concerted effort can be made to tackle the different elements of the poverty premium problem and mitigate its effects. The organisation aims to build a strong and up-to-date evidence base on the causes, detriment and impact of the poverty premium. To this end, it commissioned Ipsos MORI and Professor Donald Hirsch of Loughborough University to carry out research to examine the consumer

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[1] Hirsch, D. (supported by Joseph Rowntree Foundation), 2013, Addressing the Poverty Premium: Approaches to regulation. https://dspace.lboro.ac.uk/dspace-jspui/bitstream/2134/16999/1/Addressing-the-poverty-premium.pdf

[2] Church Action on Poverty, 2010, Paying over the odds: Real-life experiences of the poverty premium. http://www.church-poverty.org.uk/news/pressroom/resources/reports/overtheodds;Save the Children, 2010, The UK Poverty Rip-off: Poverty Premium 2010. http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

[3] Save the Children, 2010, The UK Poverty Rip-off: Poverty Premium 2010. http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

[4] Hirsch, D. (supported by Joseph Rowntree Foundation), 2013, Addressing the Poverty Premium: Approaches to regulation. https://dspace.lboro.ac.uk/dspace-jspui/bitstream/2134/16999/1/Addressing-the-poverty-premium.pdf

[5] Department for Business, Innovation and Skills, 2015, Consumer Empowerment Survey Report. https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/413511/BIS-15-208-consumer-empowerment-survey.pdf;

Citizens Advice, 2014, Consumers' Hierarchies of Priorities. https://www.citizensadvice.org.uk/Global/Public/Policy%20research/Documents/Policy%20publications/Consumer%20Publications/Consumers%20Hierarchies%20of%20Priorities%20report.pdf behaviour of low income households and assess the prevalence of the poverty premium across a number of key sectors; in particular, the three regulated markets of energy, telecommunications and credit.

Research aims and objectives

The overarching aim of the research was to help CAS answer particular questions about how businesses, industries, governments and regulators can begin to address the unfair detriment consumers experience in markets, and what steps can be taken to influence consumer behaviour so that low income consumers are guarded against unnecessarily paying more for essential goods and services.

The specific objectives were to:

1. examine the consumer behaviour and purchasing decisions of low income consumers in Scotland
2. compare the behaviour of low and high income consumers
3. explore any barriers that low income groups may face when attempting to access the best deals in the markets
4. look at how companies in the energy and telecommunications markets and also credit providers interact with low income consumers, assessing if there are any areas of concern from a consumer point of view
5. explore the extent to which consumers are aware of a poverty premium
6. explore ways in which the poverty premium burden may be lessened
7. suggest creative solutions by providing a better understanding of the root causes of the poverty premium

Research methodology

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)
- follow-up qualitative research among selected respondents to the survey

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 element.

The telephone survey

As low income consumers are a relatively hard-to-reach audience, the sample was purposively drawn from the Scottish Household Survey (SHS) re-contact database[6]. This is a database of people who have previously taken part in the SHS and

[6] The SHS is a large multi-purpose survey commissioned by the Scottish Government and undertaken by Ipsos MORI. The survey interviews approximately 10,000 households each year collecting a wide range of data on the characteristics, attitudes and behaviour of Scottish households and adults.

agreed to be re-contacted for future research. It allows researchers to effectively target particular population subgroups, and thus offers a cost-effective sampling approach.

The sample was designed to be disproportionately weighted towards both the most and least deprived areas in Scotland, according to the Scottish Index of Multiple Deprivation (SIMD). While this meant that the sample was not representative of the Scottish population as a whole, it allowed comparisons to be drawn between lower and higher income consumers. Forty per cent of the sample was made up of participants living in the two highest SIMD deciles, 40% from the two lowest and a further 20% from the remaining six.

The survey questionnaire was designed by Ipsos MORI in close consultation with CAS. All interviews were completed by Ipsos MORI telephone interviewers, using Computer Assisted Telephone Interviewing (CATI), between 23 November and 13 December 2015.

During data processing, the survey data were weighted by age and rurality, using SHS data.

Qualitative research

The qualitative research comprised 32 follow-up in-depth interviews among low income respondents to the survey.

The sample included a broad pool of people in terms of their sex, age, working status (working and not working) and location, based on the Scottish Government's Urban Rural Classification. Additionally, efforts were made to ensure participants were mixed in terms of whether or not they had switched energy or telecommunications supplier in the last three years; and/or had used some form of credit in the last year. This was important given one of the main objectives of the research was to understand the barriers and behaviours of low-income consumers when attempting to access the best deals in these markets.

The final achieved sample included:

- 11 males and 21 females
- five people aged 16-34 years, 15 people aged 35-54 years and 12 aged 55 and over
- three people in full-time employment, six in part-time employment, 16 not in employment and seven retirees
- 24 people from urban and eight from rural areas
- 18 people who had switched suppliers in the last three years and 14 who had not

Table 1.1 shows the breakdown of the achieved interviews by location.

Table 1.1: Locations of in-depth interviews

Geographic classification	Number of interviews	Location
1 Large Urban Areas	9	Edinburgh and Greater Glasgow
2 Other Urban Areas	6	Fife and Ayrshire
3 Accessible Small Towns	5	Fife, The Lothians and Perth and Kinross
4 Remote Small Towns	4	Dumfries and Galloway, Highlands and Islands, Argyle and Bute
5 Accessible Rural	4	The Lothians, Borders, Angus
6 Remote Rural	4	Aberdeenshire, Ayrshire, Highlands and Islands
Total	**32**	

The in-depth interviews were structured around a discussion guide, designed by Ipsos MORI in consultation with CAS. The majority (22) of the interviews were conducted face-to-face, with the remainder conducted by telephone.

All interviews were conducted by members of the Ipsos MORI research team between 4 and 19 February 2016. Respondents were given an incentive payment of £25 as a 'thank you' for their time.

All interviews were audio-recorded (with respondents' permission) and transcribed for analysis purposes. The transcripts and interviewer notes were then systematically analysed to identify the substantive themes which emerged in relation to each question in the discussion guide, along with key points and illustrative verbatim comments. This ensured that the analysis of the data was rigorous, balanced and accurate, and that key messages or concepts were brought out. It was also flexible enough to allow links and connections across different themes or sub-themes to be made, and for moments of interpretive insight and inspiration to be recorded.

Interpreting the findings

Quantitative data

Survey findings represent the views of a sample of the population concerned, and not the entire population, so they are subject to sampling tolerances, meaning that not all differences will be statistically significant. Throughout the report, differences between sub-groups are commented upon only where these are statistically significant, i.e. where we can be 95% certain that they have not occurred by chance.

Where percentages do not sum to 100%, this may be due to computer rounding, the exclusion of 'don't know' categories or multiple answers. Throughout the report, an asterisk (*) denotes any value of less than half a percent and a dash (-) denotes zero.

Qualitative data

Unlike survey research, qualitative social research does not aim to produce a quantifiable or generalisable summary of population attitudes, but to identify and explore the different issues and themes relating to the subject being researched. The assumption is that issues and themes affecting participants are a reflection of issues and themes in the wider population concerned. Although the extent to which they apply to the wider population, or specific sub-groups, cannot be quantified, the value of qualitative research is in identifying the range of different issues involved and the way in which these impact on people.

Structure of the report

Chapters 2 through 5 look at the views and experiences of consumers when using the following services: energy and telecommunications; insurance; shopping for food; and credit and loan companies. Chapter 6 then considers the types of impacts the poverty premium had upon consumers, while Chapter 7 looks at the support and advice, if any, they had sought. Conclusions and recommendations are presented in Chapter 8.

2. Energy and telecommunication services

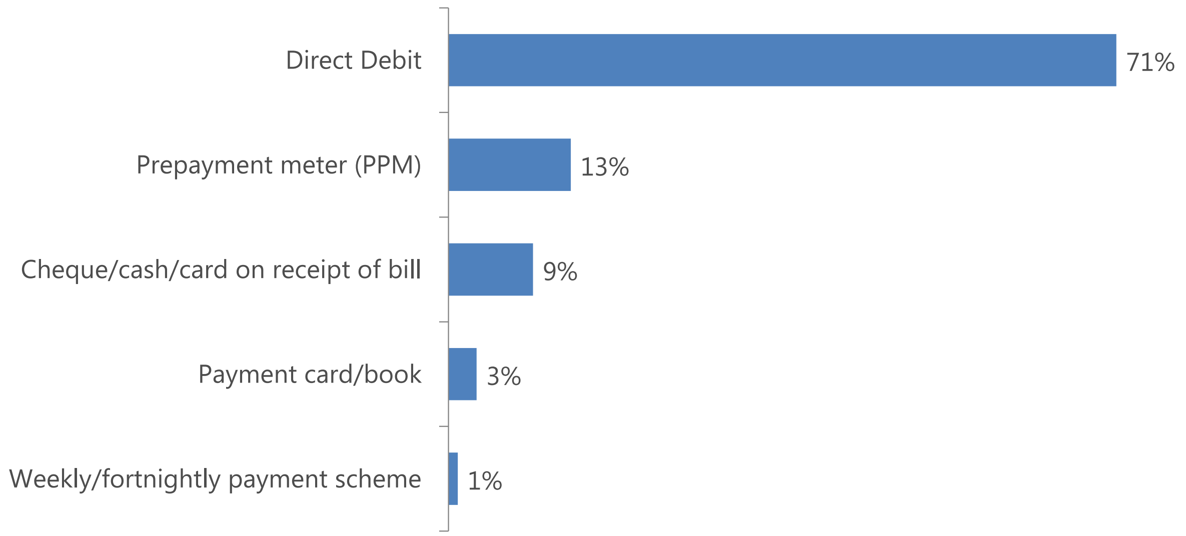
Use of energy and telecommunications services

Energy services

The majority (78%) of survey respondents had both mains gas and electricity in their homes, while one in five (21%) had electricity only. People living in rural areas were four times more likely than those in urban areas to have mains electricity only (59% compared to 12%).

As shown in Figure 2.1, Direct Debit was by far the most common method of paying for energy bills (71%), followed by prepayment meters (PPMs) (13%) and payment by cash, card or cheque upon receipt of a bill (9%).

Figure 2.1: Methods of paying for energy bills



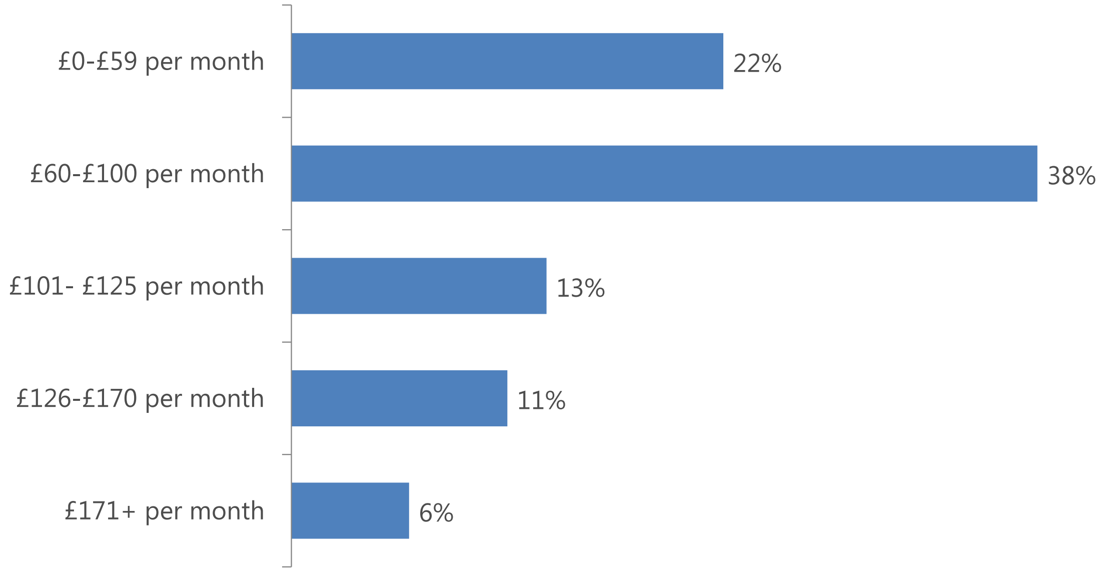
Base: All who had gas and/or electricity in their home (997)

Survey respondents earning less than £15,600 per annum (hereafter 'low income respondents') were less likely than those earning between £15,600 and £49,399 ('middle income respondents') or more ('high income respondents') to pay their bills by Direct Debit (49%, compared to 73% and 92% respectively) and more likely to have a PPM (27%, compared to 12% and 1% respectively). The use of PPMs was also more common than average among respondents who rented their home from a council or housing association (43%, compared to 16% of private renters and 4% of owner occupiers respectively).

Sixty per cent of respondents paid £100 or less per month for their gas and/or electricity, with 38% paying between £60 and £100 per month and 22% paying less than this (Figure 2.2). Thirty per cent of respondents paid more than £100 per month. One in ten did not know how much they paid.

Low earners spent less on their bills than higher earners: they were over twice as likely to pay under £60 per month (32%, compared to 13%). Still, one in five low income respondents – and around a quarter (24%) of those using PPMs – spent over £100 per month on energy bills.

Figure 2.2: Amount paid for gas and/or electricity bills



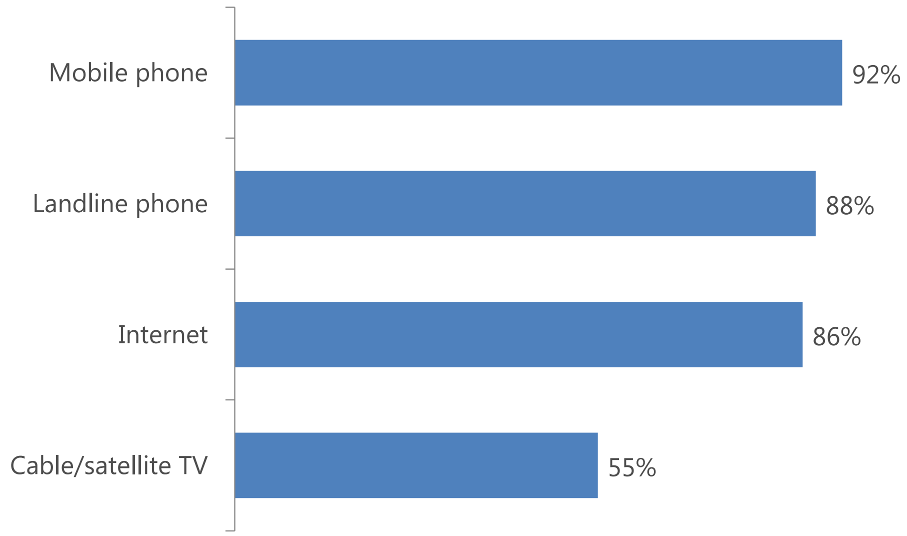
Base: All who had gas and/or electricity in their home (997)

A small proportion of respondents – 2% – were in arrears with their gas and/or electricity supplier, although the figure was slightly higher among those on a low or middle income (4% and 3% respectively, compared to no one on a high income), and respondents who lived alone (5%).

Telecommunications

Almost all (92%) survey respondents owned a mobile phone, while 88% had a landline phone, 86% had the internet and just over half (55%) had cable or satellite television (Figure 2.3). Around a quarter (26%) of low income respondents did not have a landline phone but almost all of these participants (98%) personally owned a mobile phone and therefore may have been paying a premium for phone calls.

Figure 2.3: Use of telecommunications services



Base: All respondents (1,000)

Use of the internet, landlines and cable or satellite television was less common among respondents on a low than high income. Indeed, almost one in five (18%) low earners did not use any of these services, compared to less than 1% of high earners (Table 2.1).

Table 2.1: Use of telecommunications services by income

	All	Low income	Middle income	High income
	%	%	%	%
Cable or satellite television	55	37	58	66
Landline phone	88	74	93	95
Internet	86	69	93	98
ALL	50	33	54	63
NONE	6	18	3	*
Base:	*1,000*	*219*	*337*	*214*

Mobile phone and internet usage was also lower among older than younger groups – 87% of respondents aged 55 and over had a mobile phone and 78% had the internet, compared to 96% and 91% of those aged under 55.

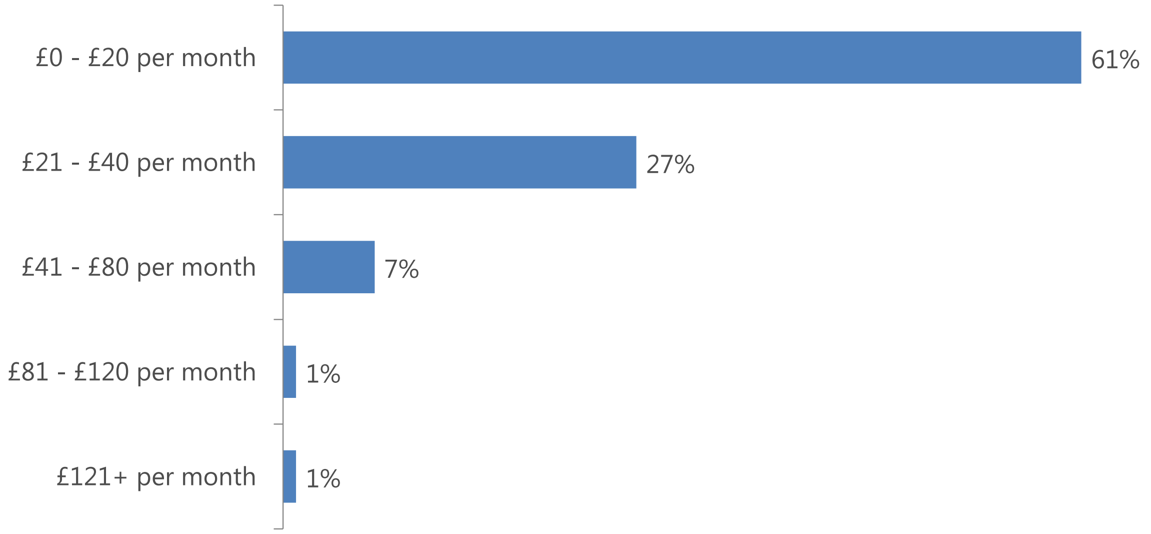
Of all respondents who had a landline phone, a significant proportion – 15% – said they did not use the service, with the figure rising to 19% in the most deprived areas (compared to 13% in the least deprived).

The majority of all mobile phones owners (68%) paid their bills by Direct Debit, while 28% used 'pay as you go' phones. Payment by Direct Debit was much less common among those on a low than a middle or high income (49%, compared to 77% and 87%), however, while the reverse was the case in respect of 'pay as you go' (47% on a low income, compared to 21% of middle earners and 9% of high earners). Use of pay as you go was also more common among older than younger respondents (44% of those aged 55 or over, compared to 19% aged under 55).

Sixty one per cent of respondents paid £20 or less per month for their mobile phones bills, while just over a third (36%) paid more (Figure 2.4). Low earners paid less than higher earners: Seventy two per cent of them paid £20 or less, compared to 58% of middle earners and 46% of high earners. Just over a quarter (26%) of low income respondents said they spent over £20 a month on their mobile phone bills.

The majority (89%) of those using pay as you go phones were paying £20 or less per month, compared with 51% of those using Direct Debit.

Figure 2.4: Mobile phone bills



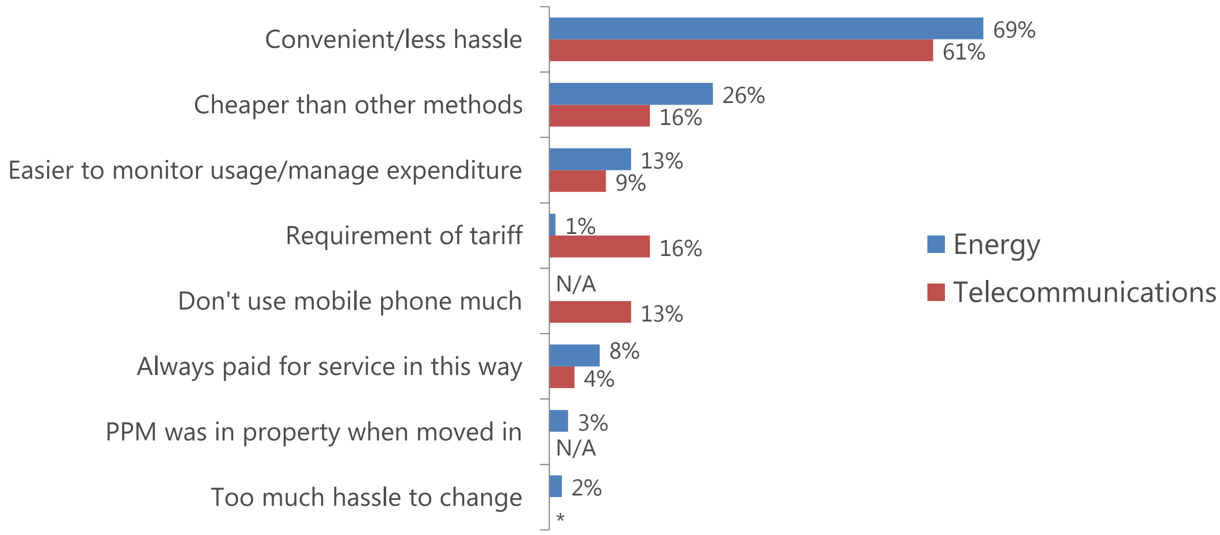
Base: All who had a mobile phone (917)

Only one per cent of respondents said they were in arrears with a telecommunications provider and there were no differences by income or level of deprivation.

Attitudes towards different payment options

The main reasons the survey respondents chose to pay for their energy or mobile phone in the way(s) they did were convenience, the cost compared to other payment methods and the ease with which they were able to monitor and manage their expenditure (Figure 2.5).

Figure 2.5: Reasons for using payment methods

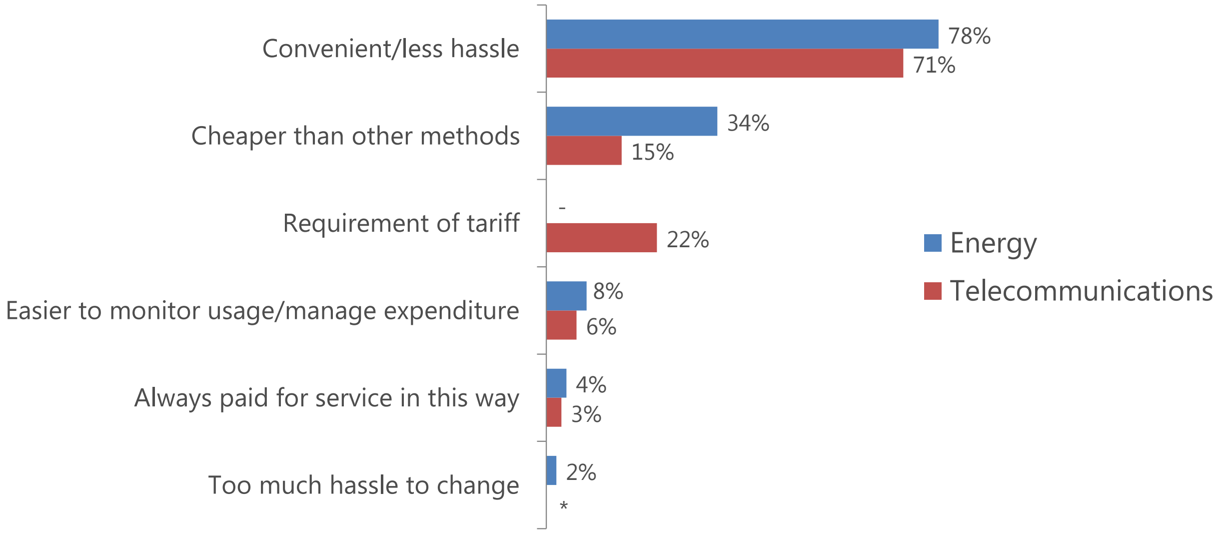


Base: All respondents (1,000)

Direct Debit

Convenience was more commonly cited in relation to Direct Debit (78% for energy and 71% for mobiles) than for prepayment options (both 38% for PPMS and pay as you go). Respondents using Direct Debit also said they thought it was cheaper than other methods (34%, compared to 20% who thought that pay as you go was cheaper and 8% using PPMs) (Figure 2.6).

Figure 2.6: Reasons for using Direct Debit



Base: All who used Direct Debit for energy (714) or mobile phone (608)

Respondents in the qualitative research said that paying by Direct Debit gave them "peace of mind", as the money was taken from their account automatically and payments could be scheduled close to pay day, when they had enough money in their bank accounts to cover the payments. They also tended to take comfort from the fact that they did not have to remember to pay their bills, which in turn reduced the risk of their facing late payment charges.

> *"If your money is in the bank, I know my bills will get paid right away, and that's it, I don't need to worry about them."*
>
> (Female, aged 35-54, urban area)

> *"[It's] helpful because otherwise you're having to keep writing out cheques or running to pay bills at the beginning of the month."*
>
> (Female, aged 55+, rural area)

Conversely, respondents who did not use Direct Debit explained this mainly in terms of the reduced control they felt it would give them over their finances. These respondents liked being able to choose when they paid their bills so that they could ensure they had enough money in their accounts to do so. There were some respondents who had used Direct Debit in the past but changed to a different method due to uncertainty over the cost of their monthly bills. They described occasions when the amount taken from their account had risen unexpectedly, either because they were charged a supplement at the end of a fixed term contract for exceeding the limits of their tariff, or because of increased energy prices.

"If you don't have the money in the bank you get stung with the bank charges if the direct debit fails."

(Male, aged 16-34, urban area)

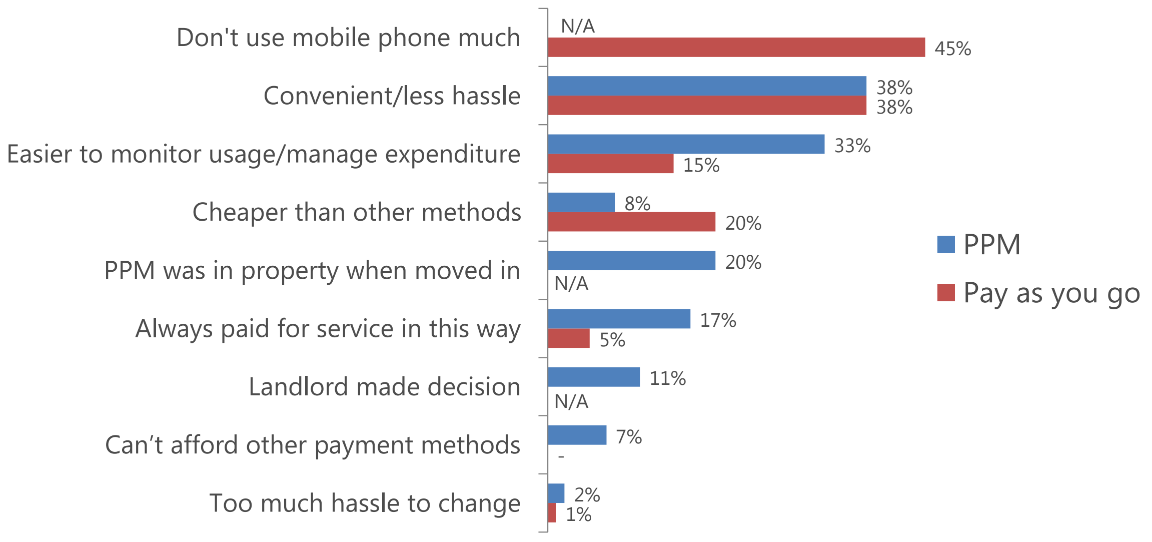
"I had a rise from £43 up to £68 for no apparent reason. I said, 'I can't control this, it's getting out of hand.'"

(Male, aged 55+, rural area)

Prepayment methods

Respondents using prepayment methods were more likely than those using Direct Debit to say they found them an easier way to monitor usage or manage expenditure (33% for PPM and 15% for pay as you go, compared to 8% and 6% using Direct Debit for energy bills and telecoms bills respectively). Additionally, those using pay as you go tended to say they did not use their mobile phone much (45%) or thought it was cheaper than other methods (20%), while those using PPMs said the meter was in their property when they moved in (20%), they had always paid for their energy in this way (17%) or that their landlord had made the decision (11%) (Figure 2.7).

Figure 2.7: Reasons for using prepayment methods



Base: All who used PPM (126) and pay as you go (279)

Reflecting these findings qualitative respondents who had a PPM – who were invariably those on the lowest incomes – said they did so as it offered greater control and more flexibility over payments than other methods. Specifically, they said that paying money directly into the meter meant they could keep a closer eye on what they were spending and meant they could choose when to pay money into the meter. They also liked being able to pay smaller, more manageable amounts towards their energy costs, as opposed to receiving large or unexpected bills every month or quarter.

"It's just easier to maintain and handle and you're not having to stress about it. [It's] easier to budget for as well."

(Female, aged 18-34, rural area)

"I love [paying by PPM] because I'm not getting a bill… It's not like you're sitting here and having your heating meter running up and you get a bill for 500 quid. How can I pay 500 quid for a bill?"

(Female, aged 16-34, urban area)

Users of pay as you go mobiles similarly liked the flexibility of being able to pay up front as and when they wished. Most were infrequent users of their mobile phones and as such felt that pay as you go was a cheaper option than having a contract.

"I've seen me putting £5 pay as you go onto my card, three months later I've got £4 left. I mean, I don't use the phone, so there's no point in me taking out a contract."

(Male, aged 55+, urban area)

"[Pay as you go] is easier to handle, because I could pay more some weeks and I could pay less others, so either way it's a good way, it's very flexible."

(Female, aged 16-34, rural area)

The flexibility afforded by PPM and pay as you go was particularly valued by the lowest income respondents who tended to manage their finances on a short term, week to week basis, and had little money left at the end of the month. Paying by these methods meant they could prioritise other expenses if necessary; something they thought would not be possible with Direct Debit.

"I've no' got lump sums of money; I've only got wee bits of money. I maybe have to survive on £50 a week, one week it will be £60, the next week it will be a wee bit more because I get my income support fortnightly. So one week I'm skint, one week I'm a wee bit better off, one week I'm skint."

(Female, aged 16-34, urban area)

"There might be one week that I forget to pay my phone, so I can knock a tenner off my electric and put it on my phone."

(Female, aged 16-34, rural area)

Most of those who used PPMs recognised that they were likely paying more for their energy compared to those using other payment methods – although, significantly, there was a sense in which they assumed that the difference would be only "slight". Still, they felt that it was worth paying the premium for the convenience and reassurance the method afforded them.

"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."

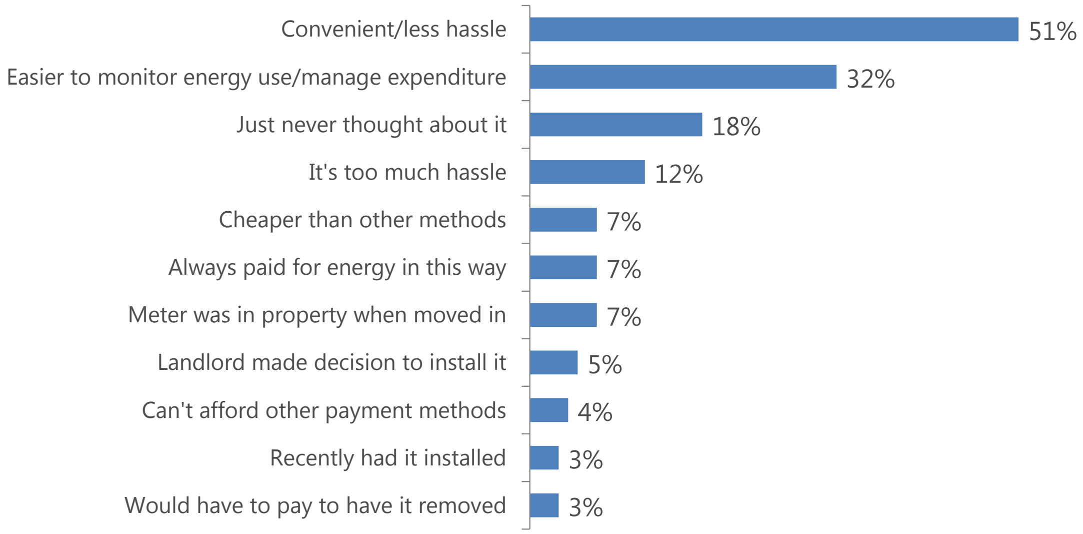
(Male, aged 55+, rural area)

"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."

(Male, aged 16-34, urban area)

Reflecting this, most – 89% – of the survey respondents who had a PPM said they had never enquired about having it removed two thirds (67%) of them gave at least one positive reason for keeping their PPM; either that it was convenient, an easier way to monitor energy use or manage expenditure, or they thought it was cheaper than other methods (Figure 2.8).

Figure 2.8: Reasons for never enquiring about having a pre-payment meter removed



Base: All who had not enquired about having a PPM removed (113)

Switching suppliers

Just over a third (35%) of survey respondents had changed a telecommunications supplier in the last three years, while a quarter (24%) had changed an energy supplier.

Low income respondents and those in rural areas were much less likely than average to have changed an energy supplier in the last three years (Table 2.2). Nineteen per cent of low income respondents had changed energy supplier, compared to 31% on a high income, while 16% in rural areas had changed, compared to a quarter in urban areas.

Table 2.2: Switching supplier by income and rurality

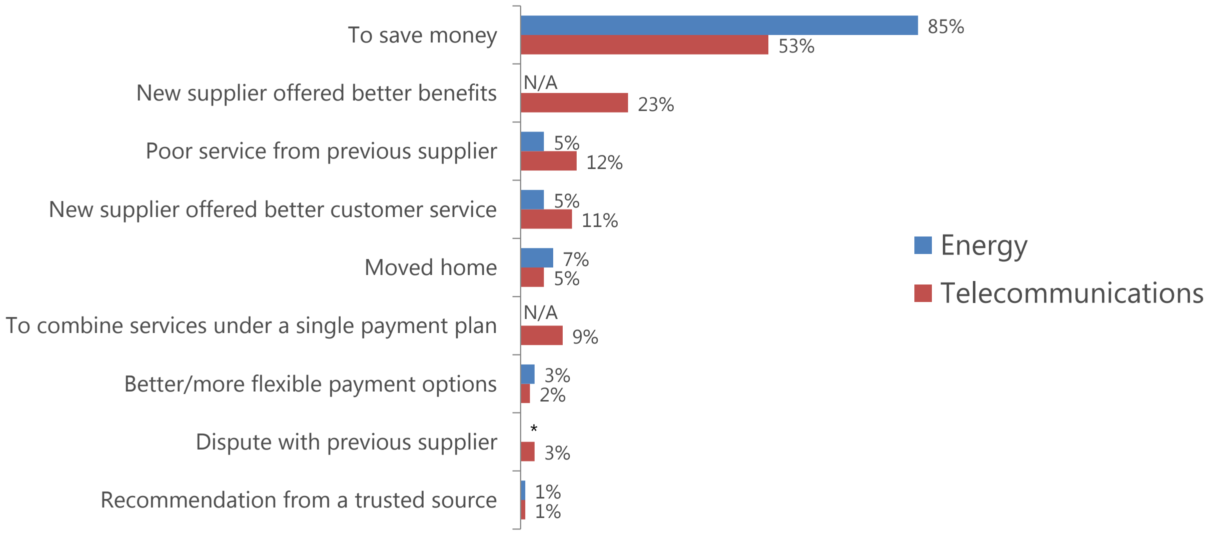
	All	Low income	High income	Urban	Rural
	%	%	%	%	%
Switched an energy supplier	24	19	31	25	16
Switched a telecoms supplier	35	31	39	36	29
Base:	*1,000*	*219*	*214*	*847*	*153*

In addition to these differences, respondents with access to the internet from home were over two times more likely than those without to have switched telecoms or energy supplier (38% and 26% compared to 14% and 10% respectively).

Reasons for switching

The main reason survey respondents gave for switching supplier was to save money – 85% had changed energy supplier and 53% had changed telecoms supplier for this reason. The next most commonly cited reasons were that the new supplier offered better benefits or because of poor service from the previous supplier (Figure 2.9).

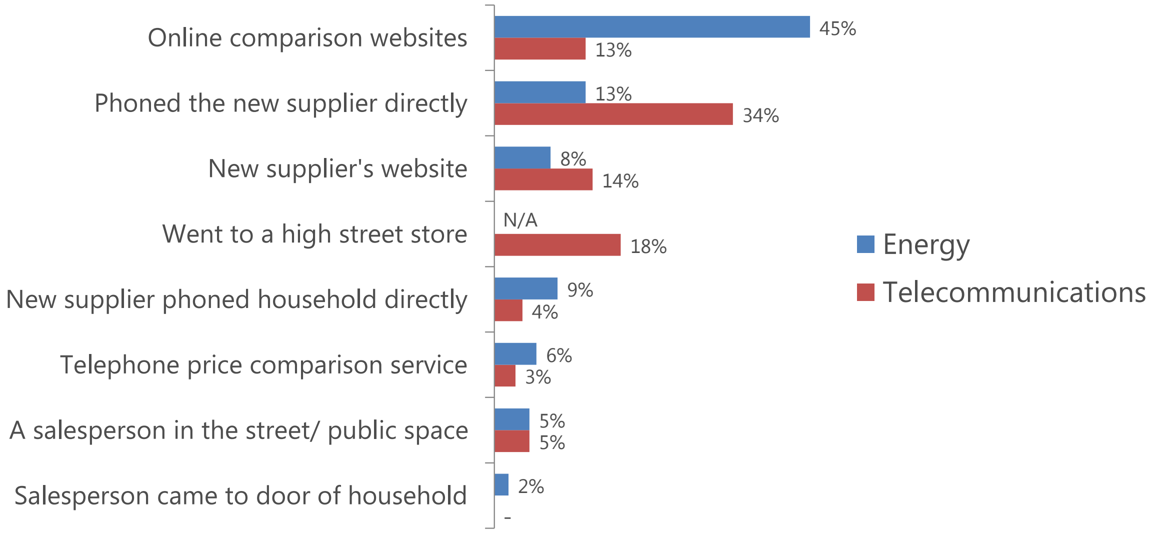
Figure 2.9: Reasons for switching energy or telecoms supplier



Base: All who had switched an energy (242) or telecoms supplier (340)

Almost half of respondents (45%) who had switched an energy supplier had used an on-line comparison service to do so, while 13% had phoned the supplier directly, 9% had been phoned by the supplier and 8% had used the supplier's website (Figure 2.10). The findings in respect of telecoms were slightly different: 34% had phoned the supplier directly, 18% had gone to a high street store, 14% had used the provider's website and 13% had used an on-line comparison site.

Figure 2.10: Methods of switching energy or telecoms supplier



Base: All who had switched an energy (242) or telecoms supplier (340)

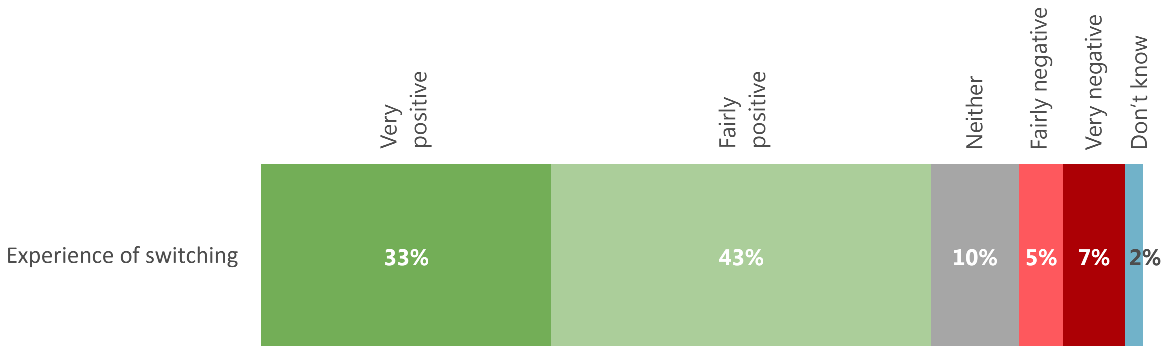
Low income respondents were less likely than those on a high income to have used an on-line comparison service to switch: 19% of them had switched energy supplier and 12% had switched telecoms supplier this way, compared to 71% and 21% of those on a high income. In part this is likely to reflect lower rates of internet access among low earners (72% of low income households had access to the internet from home, compared to 95% on a middle income and all households on a high income).

Low income respondents were *more* likely than those on a high income to have switched a supplier by phoning a supplier directly, while 15% had switched energy supplier and 10% had switched telecoms supplier this way, compared to 4% and 1% of those on a high income. They were more likely to have switched energy supplier by approaching a salesperson in the street or another public place (14%, compared to 1%).

Experiences of switching

Over three quarters (76%) of respondents who had switched a supplier reported positive experiences of doing so, with a third describing the experience as *very* positive. There were no differences by income or deprivation level (Figure 2.11).

Figure 2.11: Experience of switching a supplier



Base: All who said they had switched a supplier (468)

Of the qualitative respondents who had switched suppliers, almost all reported that they found the process easy and said that the suppliers did "all the hard work" for them. They also described how the switch had resulted in long term reductions to their bills, of between £60 and £360 per year.

> *"We're getting a pretty good deal because I changed and my electric has gone almost to half of what I was paying."*
>
> (Male, aged 55+, rural area)

> *"We save about 30 quid a month."*
>
> (Female, aged 35-54, urban area)

While most of these respondents had arranged the switch themselves, older retirees tended to say that younger family members had done it for them or that the process had been initiated by a supplier. In explaining this, they often said either that they found it difficult to understand the different deals and terminology used by suppliers, or that they did not have internet access or understand how to use online comparison sites. Several said they just did not know how to go about switching.

The small number of qualitative participants for whom the experience of switching has been a negative one said this was due to problems they had experienced with their old suppliers during the switching process. They reported that they had had difficulty getting back money they were owed or that their old supplier had mistakenly continued to charge them after the switch. In some such cases the respondents had received two bills around the same time; one from their old and one from the new supplier, which they had found difficult to afford.

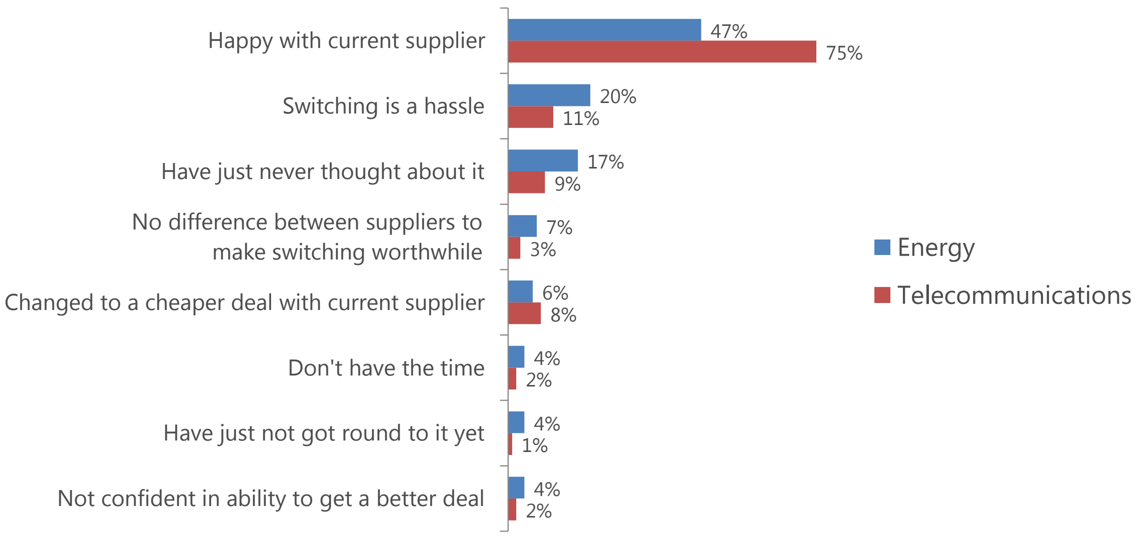
> *"I've tried all this changing and they tell you there is going to be no overlap with the bills, but that's not true. It's not the first time I've had to pay two bills in one month and my budget doesn't allow for that."*
>
> (Female, aged 35-54, urban area)

Such negative experiences led the respondents concerned to say they would not consider switching again.

Barriers to switching

Among those survey respondents who had not switched a supplier in the last three years, the reasons most commonly cited were that they were happy with their current supplier, they regarded switching as a hassle and they had just never thought about switching (Figure 2.12).

Figure 2.12: Reasons for not switching a supplier



Base: All who had not switched an energy (723) or telecoms supplier (633)

Respondents were generally happier with their telecoms supplier than their energy supplier (75%, compared to 45%) and more likely to have said that changing energy supplier was a hassle, than changing a telecoms supplier (20%, compared to 11%). A higher proportion of respondents stated that they had never thought about switching their energy supplier (17%) than switching their telecoms provider (9%).

Respondents in the most deprived areas were more likely than those in the least deprived areas to regard switching as a hassle (24%, compared to 17%), and people aged 55 and over were more likely than younger groups to do so (26%, compared to 16% aged under 55).

Qualitative respondents who were reticent about switching energy supplier often discussed this with reference to their limited understanding of the different tariffs offered by energy companies, commenting that, with so many options available, it was difficult to identify the best deals. This may, in part, explain why switching energy suppliers was less common than in the case of telecoms.

> *"I'm not sure about when it tells you about kilowatt and all that. I'm not really sure what that all means, to be honest."*
>
> (Female, aged 55+, urban area)

> *"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?"*
>
> (Male, aged 55+, rural area)

A further barrier to switching identified in the qualitative research was distrust in suppliers. Some respondents felt there was a lack of transparency in the deals they offered or that deals often involved "hidden charges" or prices that would increase following a switch.

> *"I just don't really trust any of them. You switch to one and then they put their prices up and then the other one gets cheaper."*
>
> (Female, aged 35-54, urban area)

> *"I don't believe in these special deals that they give you – they end up adding something else on to it."*
>
> (Male, aged 55+, urban area)

Other respondents thought that they would make only small savings by switching and/or in order to get the best deals they would have to switch suppliers regularly, which they felt would not be worth the effort.

> *"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 and changing [again]. I couldn't be bothered with that for saving a couple of bob."*
>
> (Female, aged 35-54, urban area)

Respondents in rural locations often reported feeling disadvantaged compared to those in towns and cities in relation to telecoms services specifically. In particular, they noted that there were only a small number of providers who could offer a good broadband service in their area and, as such, they had limited opportunity to switch in order to get a better deal.

> *"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."*
>
> (Female, aged 35-54, rural area)

> *"Our quality of internet was just appalling. [Our new supplier] was able to give us better quality. We are paying more but it's better."*
>
> (Female, aged 35-54, rural area)

Reflecting the perspectives set out above, respondents tended to say that they would be more motivated to switch suppliers in the future if associated information and tariffs were easier to understand, if they could feel that they would get the best deal, and if the associated savings would make switching worthwhile.

> *"Something like a clearer system would be great. At the moment it is all pretty much guesswork."*
>
> (Female, aged 18-34, urban area)

> *"I wouldn't change for something like two quid a week. It's not worth the paperwork to change for two quid a week. It's got to be something worth sort of £300 a year to be worthwhile."*
>
> (Male, aged 55+, urban area)

3. Insurance

Previous research[7] has highlighted that people on a low income, who tend to live in more deprived areas, often pay more for their motor and home contents insurance than those in less deprived areas. While this project focused to only a limited extent on this issue, it did identify that some lower earners living in deprived areas were paying similar amounts for motor and home contents insurance to higher earners. Given the likely differences in the value of house contents and vehicle ownership among these groups, this may confirm that lower income groups are paying a supplement for their insurance.

The majority of survey respondents (83%) had home contents insurance and almost three quarters (73%) had motor insurance[8]. Sixty seven per cent had both. That said, lower income respondents were less likely than those on higher incomes to have either type of insurance: 58% had home contents insurance and 43% had motor insurance, compared to 96% of high earners in each case. As might be expected, given its correlation with income, those in the most deprived areas were less likely than those in the least deprived to have insurance – 71% had home contents and 55% had motor insurance, compared to 92% and 86% respectively in the least deprived areas.[9]

The main barrier to accessing insurance, particularly home contents insurance, reported by qualitative respondents was cost. Those without this type of insurance simply could not afford the monthly payments.

> *"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."*
>
> (Female, aged 35+, urban area)

As shown in Table 3.1, 16% of survey respondents paid £20 or less per month for motor and/or home contents insurance, while almost half (48%) paid between £21 and £60 and 18% paid more than £60.

Low income respondents and those in the most deprived areas were more likely than other groups to pay under £21 per month for insurance. Similar proportions across all income and deprivation bands were paying between £21 and £60 per month.

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[7] Donald Hirsch supported by Joseph Rowntree Foundation, 2013, Addressing the Poverty Premium: Approaches to regulation. https://dspace.lboro.ac.uk/dspace-jspui/bitstream/2134/16999/1/Addressing-the-poverty-premium.pdf ; Save the Children, 2010, The UK Poverty Rip-off: Poverty Premium 2010. http://www.savethechildren.org.uk/sites/default/files/docs/UK_Poverty_Rip_Off_Brief_1.pdf

[8] This reflects the findings from the 2014 Scottish Household Survey, which found that 70% of households had at least one car available for private use (see http://www.gov.scot/Resource/0048/00484186.pdf).

[9] The lower proportions of respondents with motor insurance among those on a low income or in the most deprived areas are likely to reflect lower incidences of vehicle ownership among these groups.

Table 3.1: Monthly motor and/or home contents insurance payments by income and deprivation level

	All	Low income	Middle income	High income	Most deprived	Least deprived
	%	%	%	%	%	%
£0 - £10	6	16	6	2	11	3
£11 to £20	10	20	9	5	13	8
£21 to £40	27	25	29	31	25	28
£41 to £60	21	20	26	20	19	24
£61 to £80	7	2	8	9	6	7
£81+	11	1	10	18	8	12
Base:	*887*	*153*	*324*	*212*	*290*	*364*

The qualitative respondents were generally unsure as to whether or not they were paying more for insurance than those in other areas. However a small number, who had moved from urban to rural areas or *vice versa*, observed that they had paid significantly more at their urban address.

> *"It doubled, literally doubled, from the Orkney price to the here price."*
>
> (Female, aged 35-54, urban area)

There was evident confusion among respondents over the methods insurance companies used to calculate their prices. A few people noted that when they had moved to another house within their existing neighbourhood, their insurance costs had increased considerably.

> *"I moved about four or five hundred yards and it didn't quite double but it went up quite some."*
>
> (Male, aged 55+, rural area)

> *"I've only moved 400 yards from where I was before and they tried to bump up my insurance."*
>
> (Female, aged 55+, urban area)

4. Food shopping

Previous research has also established[10] that lower income households sometimes face a poverty premium when shopping for food as they are unable to take advantage of discount deals, for example, multi-buy deals, or may have a limited number of supermarkets in their area.

Some of the qualitative respondents were struggling to afford food due to rising prices, particularly towards the end of the month when they had less money to spare. As such, they were rarely able to take advantage of the multi-buy deals offered by supermarkets.

> *"The everyday things have got more expensive; milk, sugar, stuff like that."*
>
> (Male, aged 55+, rural area)

> *"Getting food is difficult sometimes, because if I pay everything at the beginning of the month, when it comes to the end of the month I've no' got the money."*
>
> (Female, aged 35-54, urban area)

A few respondents cited a lack of storage space in their homes or their not owning a freezer as further barriers to taking advantage of multi-buy offers.

> *"Our freezer is tiny, so we can't fit anything in it."*
>
> (Female, aged 18-34, urban area)

Some respondents commented that the best deals tended to be found in larger supermarkets but these were sometimes difficult to get to so there were added travel costs to consider. This was particularly an issue for those living in rural areas, who generally had fewer retail options available to them locally.

> *"I think the best deals are probably supermarkets like Asda or Tesco, but they are always further away. To get to Asda you've got to take the bus, which again is £4 bus fare."*
>
> (Female, aged 55+, urban area)

> *"If I was buying two pound of sugar in that shop down there, that would cost me £1.20. I can get it at Farmfoods for 49p for the same sugar."*
>
> (Male, aged 55+, rural area)

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[10] McBride and Purcell, 2014, Food, fuel, finance: Tackling the poverty premium: http://www.augustine.org.uk/downloads/documents/Food-%20Fuel-%20Finance%20report%20CAP%20Jan%202015.pdf ; Toynbee Hall, 2014, The Poverty Premium in Tower Hamlets: http://www.toynbeehall.org.uk/data/files/Reports/The_Poverty_Premium_Report.pdf

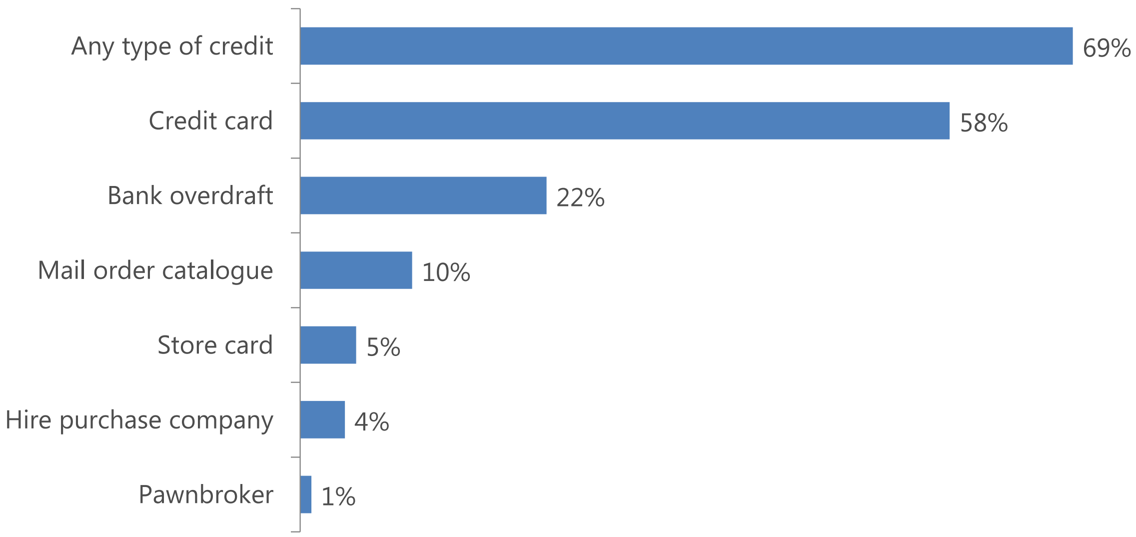
5. Credit and loans

Use of credit and loans

Around seven in ten (69%) respondents had used some form of credit in the last year: 58% had used a credit card, 22% had used a bank overdraft facility and roughly half as many (10%) had bought goods in instalments from mail order catalogues. Smaller proportions had used other forms of credit, including store cards (5%) and credit offered by hire purchase companies (4%) or pawnbrokers (1%) (Figure 5.1).

Higher and middle income groups were more likely than those on lower incomes to have used credit cards (80% and 63% versus 34% respectively), whereas low income groups were more likely to have used credit offered by a pawnbroker (2% versus 0% of higher earners). There were also differences by gender, with women being around three times more likely than men to have bought goods in instalments from catalogues (14% versus 5%) or used store cards (7% versus 2%).

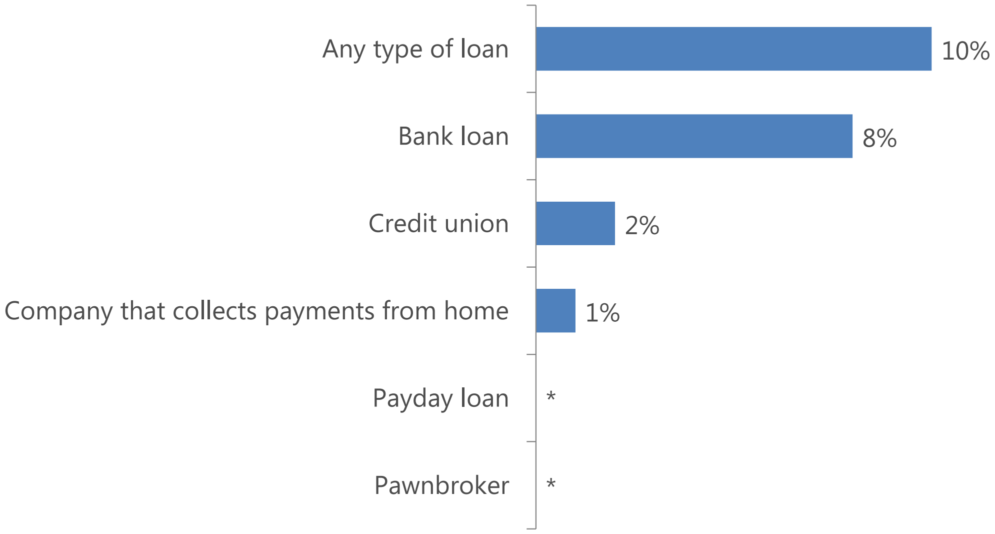
Figure 5.1: Use of forms of credit in the last year



Base: All respondents (1,000)

One in ten respondents had taken out a loan in the last year – 8% from a bank or building society, 2% from a credit union and smaller proportion from a payday loan company (less than 1.5%), or pawnbroker (0.5%) (Figure 5.2). These results were relatively consistent across different subgroups of respondents, including different income groups, although, as might be expected, fewer low than middle or high had taken out a bank or building society loan (6% versus 8% and 11% respectively).

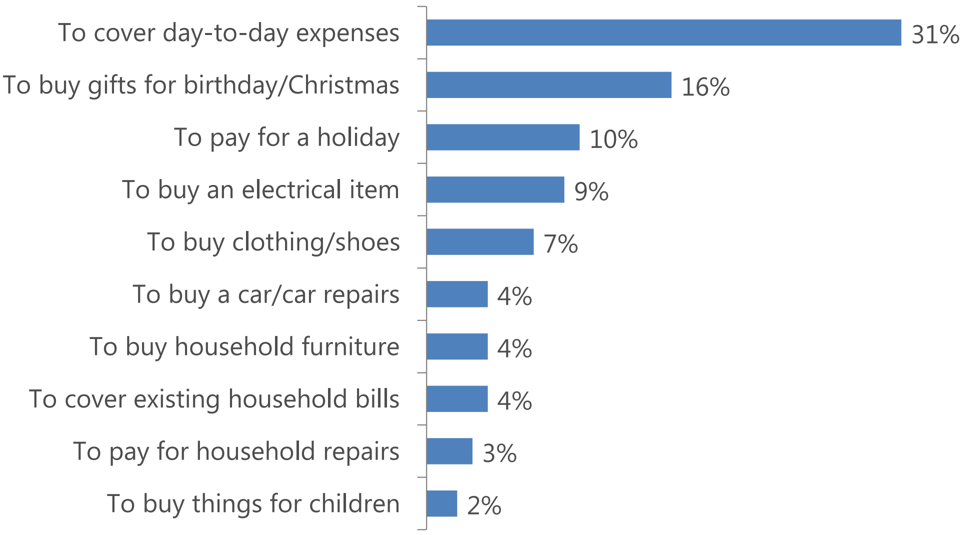
Figure 5.2: Use of loan products in the last year



Base: All respondents (1,000)

The main reasons respondents had used credit or applied for a loan in the last year were to cover day-to-day expenses such as food or transport (31%), to buy birthday or Christmas gifts (16%) and to pay for holidays (10%) (Figure 5.3). Small base sizes preclude analysis by income but analysis by SIMD reveals that people living in the most deprived areas of Scotland were twice as likely as those in the least deprived to have used credit or a loan to buy gifts (22% versus 13%) and electrical items (14% versus 7%).

Figure 5.3: Reasons for using credit or loan products



Base: All who had used credit/loan in the last year (652)

The qualitative research identified factors – over and above respondents' financial situations – that appeared to have shaped their attitudes towards credit and loan products, and thus their propensity to use such products. Chief among these were their age and past proxy experience of debt.

There was a tendency for older respondents to say that their generation was more inclined than younger ones to “live within its means” and avoid buying things it could not afford. They also tended to talk about their reluctance to be in debt in later life when a lack of income would make it difficult for them to ‘bounce back’.

> *"We grew up in an age where if you couldn't afford a thing you didn't have it until you could either save up for it or you went without.”*
>
> (Female, aged 55+, rural area)

People with proxy experience of debt were similarly among those most averse to the idea of using credit or loan products. They reflected on occasions when family or friends had gotten into considerable difficulties as a result of borrowing and struggled to get back on their feet:

> *“I won't make that mistake. I've seen the consequences of what it can do.”*
>
> (Female, aged 35-54, rural area)

> *"Not to take on debt was probably one of the biggest lessons [our mother] taught us… because she went through a hell of time herself with people threatening her at the door and stuff like that, because she wasn't keeping up with the payments”.*
>
> (Male, aged 35-54, urban area)

In contrast, people who were coping well financially, for example those who lived within their means or were in full-time employment often held more relaxed attitudes towards credit and loans, because they were confident that they would be able to pay these off and also liked the idea of having a “financial safety net”.

> *“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.”*
>
> (Male, 55+, urban area)

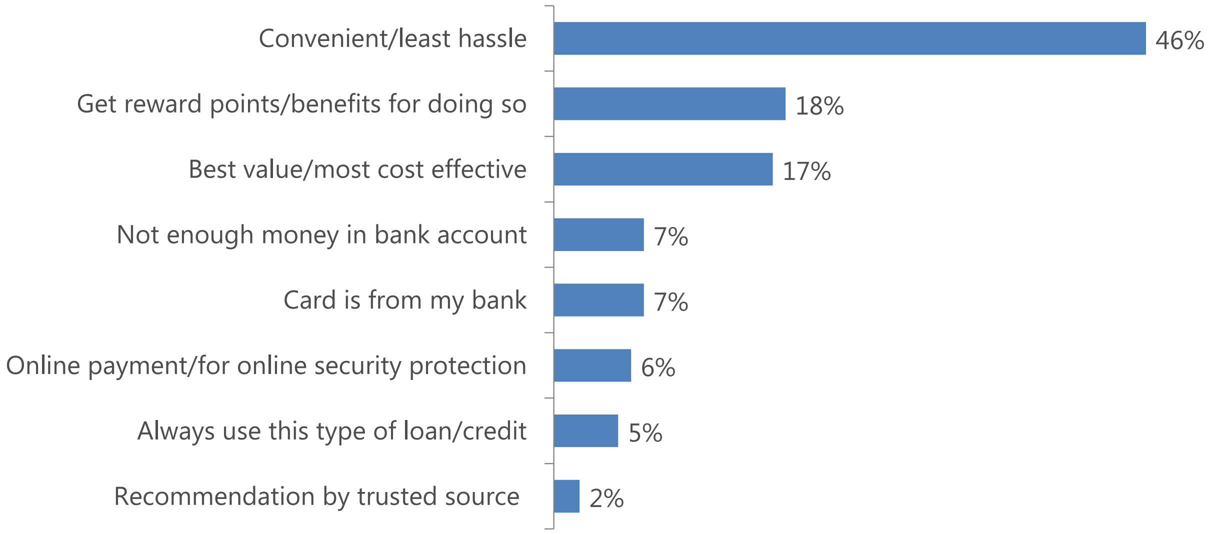
Others, including some parents, held more fatalistic attitudes towards credit, commenting that they had no choice but to use it in order to get by.

> *"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."*
>
> (Female, aged 35-54, urban area)

Choosing credit or loan products

As Figure 5.4 shows, the key factors that respondents took into account when choosing credit or loan products were convenience (46%), the availability of reward points or other benefits (18%) and value (17%). No other factor was mentioned by more than one in ten people.

Figure 5.4: Factors determining respondents' choice of credit or loan products



Base: All who had used credit/loan in the last year (652)

To some extent these findings may belie a lack of confidence among the public – and particularly among lower income groups – when it comes to choosing between products, however. From the qualitative research it was clear that respondents often had difficulty understanding the language and jargon used by credit providers, with several people saying they were reliant on their spouse, another family member or a bank manager to help them.

> *"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."*
>
> (Male, aged 16-34, urban area)

> *"Well, it's a different kind of language isn't it?"*
>
> (Female, aged 55+, urban area)

> *"It's beyond me."*
>
> (Male 55+, urban area)

Reflecting this, while some respondents were acutely aware that their use of credit or loan products meant they were paying more in the long run, this was by no means universally the case and there was a sense in which at least a few people had taken up a product without a full appreciation of what it meant – usually owing to their "desperation" to find a solution to their financial challenges.

> *"It's hard, it's really hard....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".*
>
> (Male, aged 35-54, urban area)

> *"When I sat and thought about it, I said [to myself]: 'that's not a bargain; I would be better going to the bank and getting a loan.' It didn't sink in [at the time]; I was needing the money."*
>
> (Male, aged 55+, rural area)

Only around a quarter (23%) of the survey respondents who had used credit or applied for a loan in the last year, had first checked their credit rating with a company like Experian. The proportion was smaller still among low income groups (10% versus 28% and 29% of middle and high earners respectively) and those living in rural areas (18% versus 25% in urban areas).

These results may in part reflect some respondents' limited understanding of credit matters. In the qualitative research it was common for respondents to say that they did not know or were unsure what might impact upon their rating, whether positively or negatively:

"I went to the dentist once and they kept sending out notices that I had to pay and dad said: 'If you don't pay it now you'll have a bad credit rating', so maybe [that would affect my rating]. I don't know."

(Female, aged 16-34, urban area)

"I haven't a clue how they work it."

(Male, aged 55+, urban area)

Managing repayments

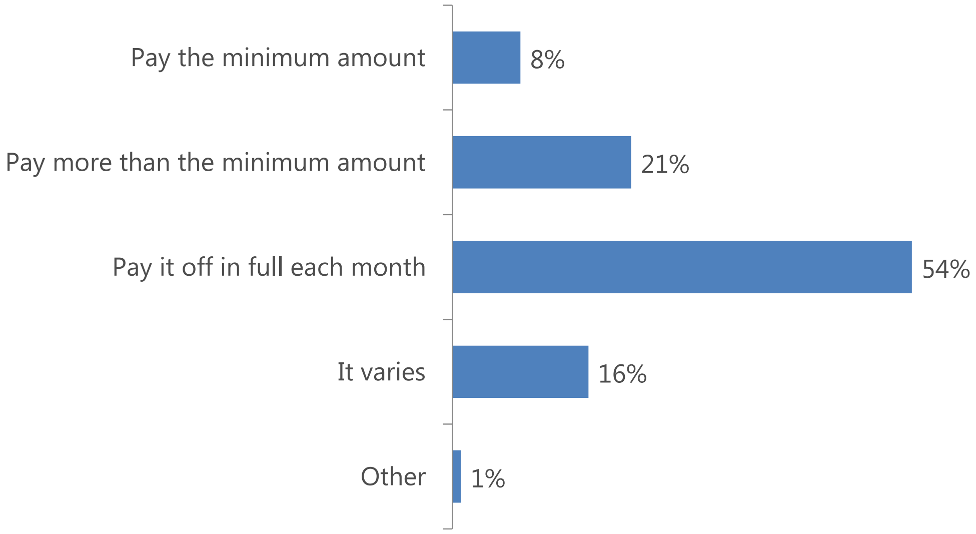
Three in ten (29%) of all survey respondents were paying more than £100 per month on credit or loan repayments, including one in ten (11%) of those on a low income (Table 5.1). Just over one in ten (12%) did not know how much they were paying.

Table 5.1: Level of credit or loan repayments

	All	Low income	Middle income	High income
	%	%	%	%
Not using credit/loans	35	53	29	16
£0-£100 per month	20	24	25	19
£101+ per month	29	11	36	53
Payments deferred	1	1	1	1
Don't know	12	7	9	14
Base:	*1,000*	*219*	*337*	*214*

Just over half of all those making repayments said they usually met these in full each month, while 21% said they paid more than the minimum amount required and 8% said they paid the minimum or less (Figure 5.5). The latter figure rose to 16% among low earners (compared to 7% and 4% among middle and high earners respectively).

Figure 5.5: Level of credit or loan repayments



Base: All who made credit repayments (489)

Several of the qualitative research respondents reflected on occasions in the past when they had failed to make repayments on time. Invariably this had resulted in their being charged added interest or a late payment fee, thus significantly adding to the financial pressures they were under.

> *"The overdraft payments have landed me in a wee bit of hot water…What I do is I try and pay a set amount and try and bring that down a wee bit and not use as much money for the next time. It's really hard."*
>
> (Male aged 35-54, urban area)

> *"That was how I got in a mess…If I missed payments, I always paid it, like maybe it was due this week but I paid it a fortnight later when my money came in but they still penalised me for that even though I still paid them."*
>
> (Female, aged 35-54, urban area)

6. Impacts of the poverty premium

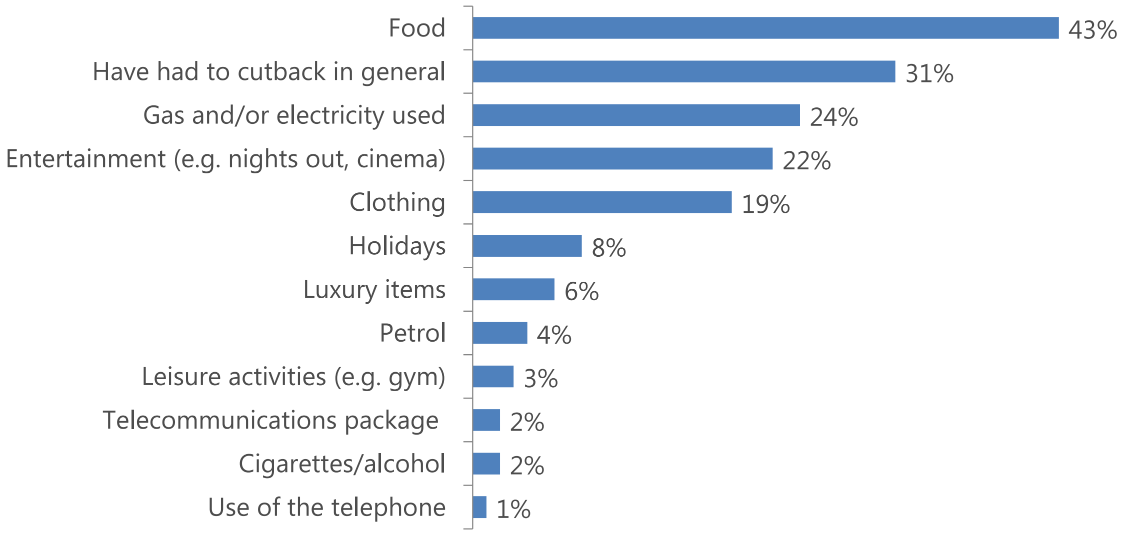
The research identified significant impacts of living on a low income; impacts that seemed to be exacerbated by the cost of bills or repayments. These impacts included a need to cut back on other areas of expenditure; and a number of more 'personal' impacts, from health problems to relationship difficulties.

Cutting back on expenditure

Around one in ten (8%) respondents said the cost of their bills or repayments had resulted in their having to cut back on other areas of expenditure. The figure rose to 15% among low income groups (versus 3% of high earners), 17% among those with a PPM and 24% among those who were in arrears with their gas, electricity or telecoms provider.

The specific items of expenditure respondents had most commonly had to cut back on were food (43%), gas and/or electricity (24%) and entertainment, such as nights out and going to the cinema (22%). Around a third (31%) had cut back in general (Figure 6.1).

Figure 6.1: Items of expenditure cut back on



Base: All who had had to cut back spending (78)

The qualitative research confirmed that, when it came to managing their household finances, respondents tended to prioritise paying their rent and bills over other day-to-day expenses; particularly food. Indeed, it was common for them to say that they often had little or no money left each month to spend on food, especially towards the end of the month, and were forced to buy cheap or discounted produce and/or "unhealthy food".

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

(Female, aged 35-54, rural area)

"I can do a meal for eight for £3.50 and if we're desperate for money I will do that. It's just chicken nuggets, chips and beans, the cheapest they've got. It's not something I like doing because it's not the kind of food I would like to give the kids."

(Female, aged 35-54, urban area)

Those who had had to cut back on gas and/or electricity often commented on what they perceived to be the excessive cost of their energy bills. Several said they avoided "put[ting] the heating on unless freezing" or "[thought] twice before using heating"; instead, finding alternative ways to keep warm, such as putting on extra clothes or using only one of their heaters. Those with PPMs tended to be particularly worried about costs, and reported avoiding using their heating wherever possible.

"[We had to cut back] because it was too expensive so we would only have one heater on and if it got too expensive, well, we just switched it off."

(Female, aged 55+, rural area)

It was also common for the qualitative participants to say that the costs of their bills or repayments, coupled with wider difficulties managing on a low income, prevented them from having much of a social life, which meant they tended to spend the majority of their time at home. They also described having little or no money to spend on hobbies or other leisure activities, either for themselves and/or their children.

"I used to go out a lot more and now is the time where I could go out any time I want because my daughter is grown up, and I can't; I can't have fun. Now and then I could go across the road to the local pub, have a couple of drinks but it bores you to death these places."

(Female, aged 35-54, urban area)

"I just feel [my home] is my sanctuary now. I try and make it as nice as I can because I've got to sit here 24/7."

(Male, aged 35-54, urban area)

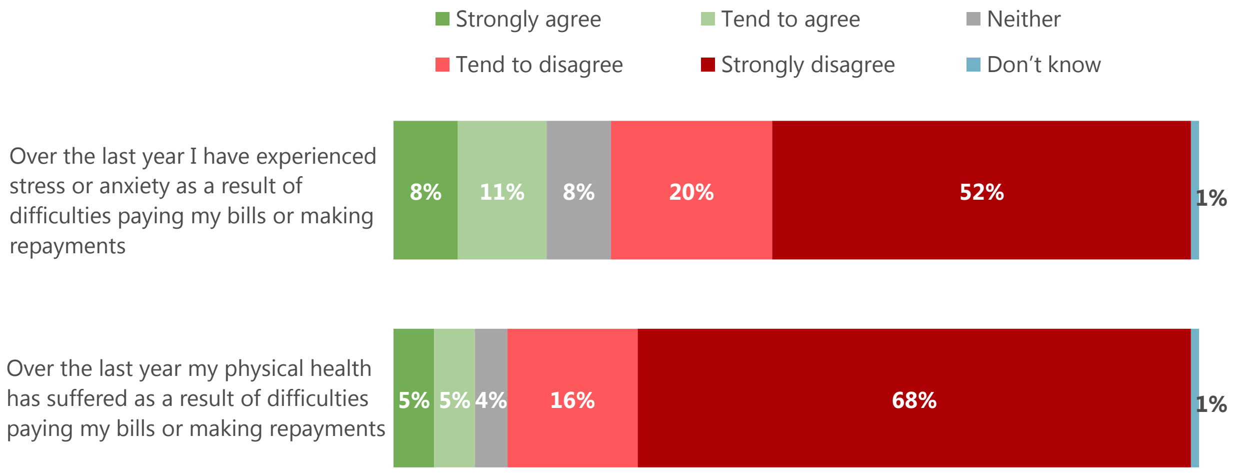
"I used to go fishing, which is quite expensive now. I used to go to the football, but the price of getting into one football match can run my car for a week."

(Male, aged 55+, urban area)

Impacts on mental and physical health

One in five respondents (19%) said they had experienced stress or anxiety as a result of difficulties paying bills or making repayments, and roughly half as many (10%) said their physical health had suffered (Figure 6.2 and 6.3). Again, low earners were among those most likely to have experienced these negative effects. Indeed, almost a third of this group had experienced stress or anxiety and 20% had experienced physical health problems (compared to 5% and 2% for high earners). Among those in arrears, the figures were higher still, at 57% and 43% respectively (compared to 16% and 8% of those without arrears, Table 6.1).

Figure 6.2: Impacts of financial difficulties on mental and physical health



Base: All respondents (1,000)

Table 6.1: Health impacts by income and arrears

	All	Low income	Middle income	High income	In arrears	Not in arrears
	%	%	%	%	%	%
Experienced stress or anxiety	19	30	24	5	57	16
Experienced physical health problems	10	20	12	2	43	8
Base:	*1,000*	*219*	*337*	*214*	*71*	*916*

There were also some differences by rurality, with those in urban areas more likely than those in rural ones to have experienced these effects (21% had experienced stress or anxiety and 12% had experienced physical problems compared to 11% and 4% respectively). Experience of stress or anxiety was also higher than average among people aged 25-34 and those living in single adult households (30% and 31% respectively versus 19% overall).

The qualitative respondents commonly described experiencing stress or anxiety on a regular basis, particularly towards the end of the month when they had little or no money left to cover day-to-day expenses. This stress and anxiety often manifested in fatigue and sleeping difficulties, and appeared particularly acute among those who were out of work, or had had their benefits cut.

> *"I experience anxiety on a day-to-day basis, but especially when it is before pay day, I tend to stress a lot more."*
>
> (Female, aged 16-24, rural area)

> *"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 all the time."*
>
> (Female, aged 35-54, urban area)

> *"[My financial situation] is on the back of [my] mind constantly. I know that tomorrow I get, I call it my double money because I get the [Personal Independence Payment on top of the other benefits], so I call that my good week. (...) Then come the fourth week; that's normally when I've got nothing."*
>
> (Female, aged 35-54, rural area)

In terms of physical health issues, the most commonly cited problems tended to be those associated with a poor diet. Respondents commented that having little or no money to spend on good quality food had caused their health to suffer; a fact some of them felt was evident in their appearance.

> *"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."*
>
> (Female, aged 35-54, urban area)

> *"I'm skinny, everybody thinks it's from the cancer, but it's just from not eating."*
>
> (Male, aged 35-54, urban area)

Respondents with pre-existing health conditions reported that having to cut back on their use of gas and electricity by using their heating as little as possible had served to exacerbate their condition(s).

> *"I've got a lot of muscle problems as well and you've got to keep warm, not to get cold, and not to get stressed, which again is very bad to do, just worrying all the time."*
>
> (Female, aged 35-54, rural)

> *"I've got to watch what I'm doing health wise. My nerve ends are dying off, and if I'm not at a certain temperature, my feet and my ankles [get painful], so I'm in constant pain and I can't walk."*
>
> (Female, aged 55+, rural area)

Impacts on relationships

One in ten (9%) survey respondents said their relationships with family, partners or friends had suffered as a result of difficulties paying bills or making repayments (Figure 6.4). As in the case of health problems, relationship difficulties tended to be most prevalent among those on a low income and, more especially, those in arrears (Table 6.2). Indeed, almost half (42%) of those in arrears said they had experienced such difficulties (compared to 6% of those without arrears).

Figure 6.4: Impacts of financial difficulties on relationships

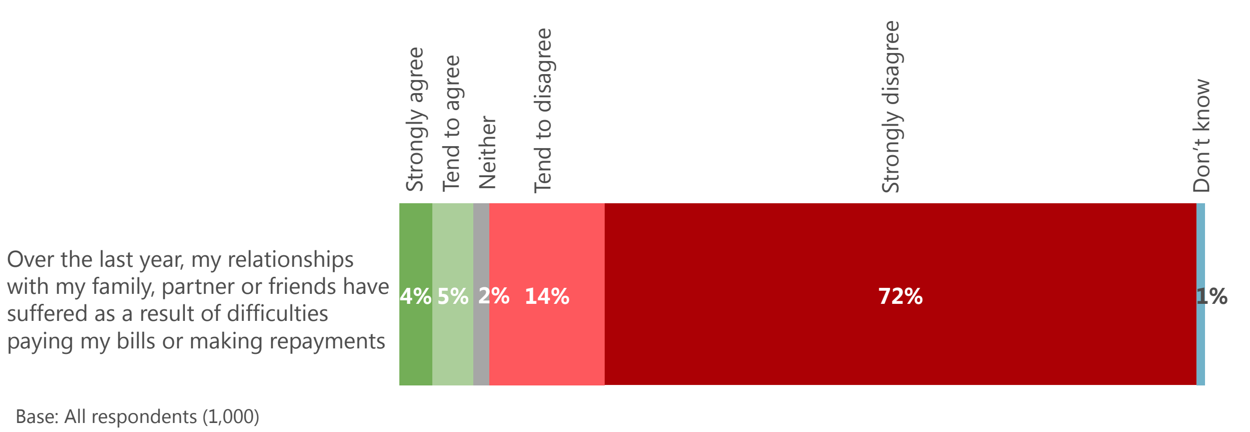


Table 6.2: Relationship impacts by income and arrears

	All	Low income	Middle income	High income	In arrears	Not in arrears
	%	%	%	%	%	%
Experienced relationship problems	9	13	10	3	42	6
Base:	*1,000*	*219*	*337*	*214*	*71*	*916*

There were also differences by household type and age. Households with children were around two times more likely than those without to say their relationships had suffered (17% versus 8%). Those aged 25-34 were over four times more likely than those aged 55 or over to say this (22% versus 5%).

The qualitative research suggested that the inability of some low incomes respondents to afford much of a social life contributed to their relationship difficulties. It was common for people to say they were not able to visit relatives or go on nights out with friends, and, when out, they felt constantly worried about how much they were spending. This was particularly the case for those who were unemployed and had to use some form of credit to manage their day-to-day expenses.

> *"Two years ago I had everything. I could go out the house and visit my sister, I could go to a nightclub and meet my pals, and now it's like somebody went like that with their fingers and this is where I am now. I stare at four walls, I don't go out unless they come and see me. I miss my niece and nephew."*
>
> (Male, aged 35-54, urban area)

> *"It all makes me a little bit sad sometimes, when you can't do things with your friends that you really wish you could or in my case also see my boyfriend, he was in Germany. Well, ex-boyfriend now because I couldn't see him. It does have an impact."*
>
> (Female, aged 16-24, urban area)

Additionally, parents often described how their relationships with their children had deteriorated owing to the fact that they could not buy them the things they wanted.

"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."

(Female, aged 35-54, urban area)

"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."

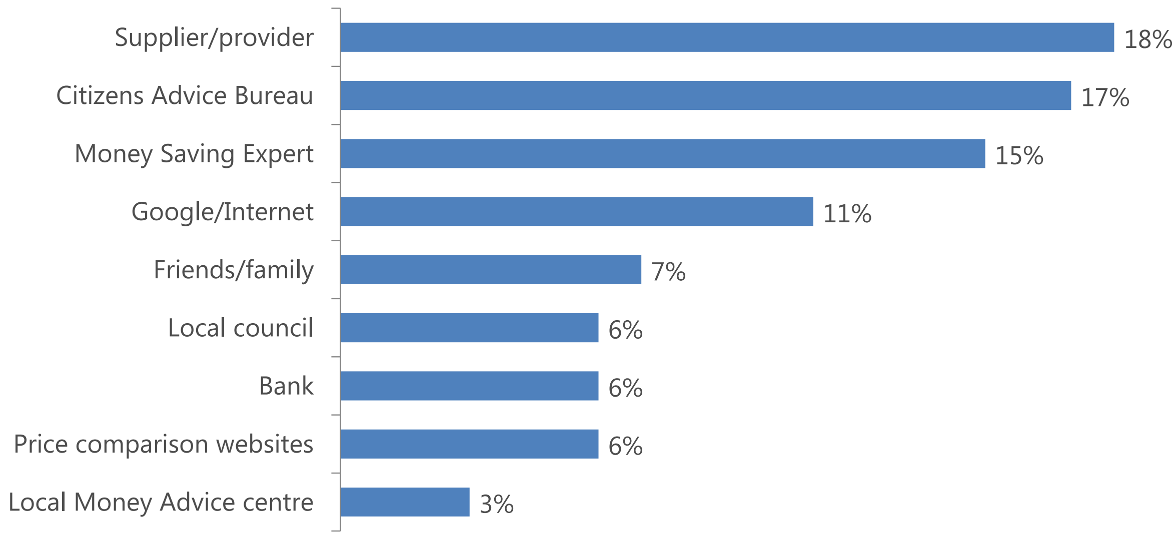
(Female, aged 35-54, urban area)

7. Support and advice

One in five (21%) respondents had sought information or advice on how to reduce their bills or repayments. There were no differences in levels of advice seeking by income levels or SIMD. Further, while those in arrears were more likely to have sought advice than those who were not, the figure was still well below what might be expected (36% versus 20% of those without arrears).

As Figure 7.1 illustrates, those who had sought information or advice most commonly said they had contacted the service provider concerned (18%), CAB (17%) or the Money Saving Expert website (15%).

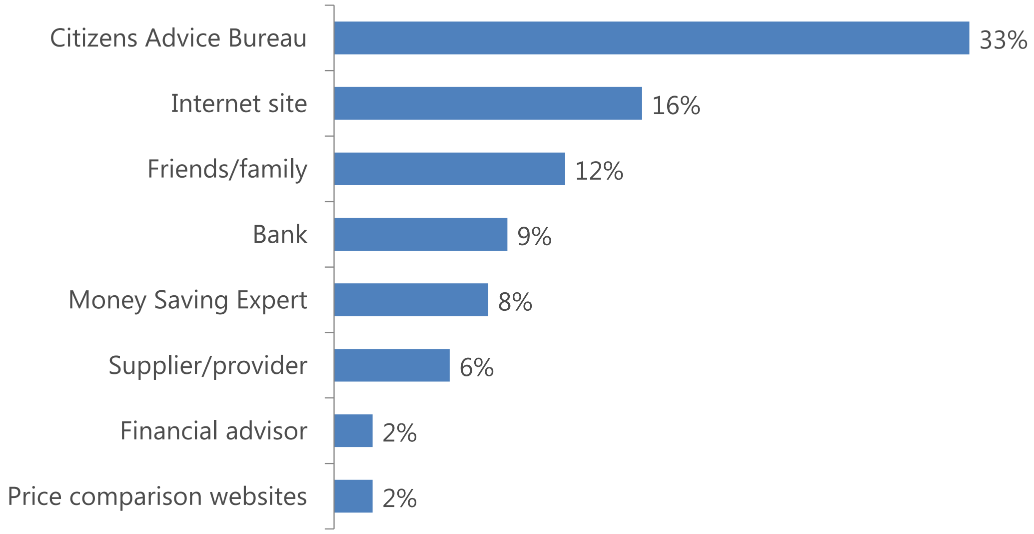
Figure 7.1: Sources of information or advice on reducing bills and repayments



Base: All who had sought information or advice about reducing their bills or repayments (205)

Those who had *not* sought information or advice were asked who they would approach or where they would look, if they needed help in the future. A third said they would approach CAB while around half as many (16%) said they would look on Google or websites, such as *Which?* and *Money Matters*, and 12% said they would approach friends or family. No other source was mentioned by more than one in ten of those asked (Figure 7.2).

Figure 7.2: Likely future sources of information or advice on reducing bills and repayments



All who had not sought help or advice (787)

More low than high income respondents said they would approach CAB (40% versus 29%), whereas, more high income respondents said they would look for information or advice on websites (38% versus 24%).

Respondents in the qualitative research who had sought financial advice or information had done so for a number of different reasons. These included: a change in their family circumstances (for example, the death of a partner or divorce); a reduction in their benefits (for example, as a result of their child leaving full time education); a risk of homelessness; and having a long term illness or chronic condition, which meant they were unable to work.

Most of those who had sought advice or information described the experience in very positive terms. For example, those who had approached CAB described how the organisation had helped them to budget, claim benefits they were entitled to, develop repayment plans, and/or generally smooth their relations with suppliers or creditors. Others said that CAB had pointed them in the direction of other organisations that would be better placed to help them.

> *"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."*
>
> (Male, aged 35-54, urban area)

> *"[CAB] seemed to get the creditors off my back."*
>
> (Male, aged 25-34 urban area)

The small number of qualitative participants who reported more negative experiences of seeking information or advice – all of whom had contacted CAB or their bank – tended to say either that they had had difficulty accessing these services, or they had not received the support or outcome they had expected.

> *""I couldn't get hold of CAS; [it's] difficult in this area. They're only open part time hours."*
>
> (Male, aged 55+, urban area)

"I did go to the bank at the time and explained to them that I was in a financial rut and asked them if there was any way they could work something else out to reduce the payments and they weren't very helpful at all."

(Female, aged 35-54, urban area)

Qualitative respondents who had not sought information or advice about their bills or repayments explained this mainly in terms of not having any need to – either because they had no serious financial problems, or because they felt they were good at managing their money. However, it was clear that there were others who could have benefitted from advice or information, yet had not sought it. This tended to be because they were unaware of the help that was available, were too embarrassed to ask for help or preferred to turn to family or friends for support.

"I didn't know there was anyone we could go to."

(Male, aged 55+, rural area)

"I feel bad phoning [suppliers] to say 'I can't pay you the money'."

(Female, aged 16-24, rural area)

8. Conclusions and recommendations

The research uncovered clear evidence of a 'poverty premium' in all three of the key markets considered – energy, telecommunications and credit – but particularly in the energy sector.

Around half of low income respondents did not use Direct Debit to pay for their energy – instead using PPMs, paying upon receipt of their bills or using other methods, such as payment card or books – and one in five of them paid over £100 per month for their bills. Although most of those who used PPMs recognised that they were likely paying more for their energy compared to those using other payment methods, they felt that it was worth paying this premium for the convenience and reassurance the method afforded them. There was also a sense in which they assumed that the difference would only be "slight". Low income respondents were less likely than those on higher incomes to have switched supplier. They tended to think that switching was a hassle, to have difficulty understanding tariffs, or to distrust the deals offered by suppliers.

Evidence of a poverty premium in the telecommunications market was less pronounced: low income respondents were generally happy with their current supplier, and appeared to be on the best deals for their circumstances. Further, they identified fewer barriers to switching. That said, there were signs that they could be paying more for certain telecoms services: almost a quarter of them did not have a landline phone, owning a mobile only, and as such they may have been paying a premium for phone calls. Further, low income respondents in some rural areas had a limited choice of broadband providers and felt they were paying more than those in urban areas as a consequence.

Low earners also seemed to have limited access to certain forms of credit, compared to those on higher incomes. They were less likely to have used credit cards or taken out bank or building society loans, and more likely to have used credit offered by pawn brokers. Around a fifth of low earners who were currently making credit or loan repayments were paying the minimum amount or less, and so were likely paying more in interest compared to those able to repay more. While some low income respondents were acutely aware that their credit choices meant they were often paying more in the long run, there were others who clearly were not or who professed to having limited understanding of such matters.

While the research focused on the insurance and food markets to only a limited extent, it did identify some evidence of a poverty premium in these areas, too. In terms of insurance, low earners living in deprived areas were paying similar amounts to higher earners in the least deprived areas for motor and home contents insurance. With respect to food, low income respondents were occasionally limited in their ability to take advantage of multi-buy offers – particularly towards the end of the month when they had little money in their accounts. Those in rural locations faced added difficulties: there were fewer retail options available to them locally and as such, they had to travel, either by bus or car, in order to access cheaper deals, thus further increasing their outgoings.

The research provided clear evidence that living on a low income had significant impacts on those affected, which seemed to be exacerbated by the cost of their bills or repayments. These impacts included a need to cut back on other areas of expenditure; and a number of more 'personal' impacts, from health problems to relationship difficulties.

Despite these impacts, it was notable that only around one in five of those on a low income had sought information or advice on reducing their bills or repayments – and that the figure among those in arrears was only a little higher, at just over a third.

The research points to a number of ways in which CAS might work to lessen the poverty premium burden. These included:

- Working with suppliers and regulators in the key sectors with a view to:
  - putting pressure on suppliers to bring premiums down. Some low income consumers may be willing to pay a premium (for example for the flexibility offered by prepayment methods) or legitimately face increased costs due to risks incurred when serving these consumers (e.g. due to the risk of default on credit). However, these premiums should fairly reflect the additional cost or risk incurred by the supplier. CAS could work with suppliers and regulators to ensure that, when necessary, premiums are fairly priced and examine any appropriate alternatives.
  - encouraging suppliers to make their customer information and advice simpler; particularly that relating to different energy tariffs and credit products. Ultimately, this would enable consumers to accurately assess whether or not they are on the best deal, with terms that suit them. As issues of understanding appear to be particularly pronounced among older people, special measures will need to be considered for this group. This might involve CAS working with suppliers and also charities or organisations working with older people; for example Age UK, to identify the best and most practical solutions in this regard.
  - ensuring information relating to different deals is made accessible for consumers without internet access at home, and promoting awareness of alternative methods by which they can contact suppliers. As low income respondents were less likely than those on a high income to have used an on-line comparison service to switch their suppliers (particularly in the energy sector), they may be less likely to benefit from cheaper deals, due to lack of access to the internet. Companies should ensure that customers who choose to switch their suppliers or payment plans by phoning a supplier directly, approaching a salesperson on the street or going to a high-street shop, have the same information and offers available to them as those who access this information on-line.
  - encouraging suppliers to more proactively offer support and payment plans to people experiencing financial difficulties. As part of this, companies should ensure their customer service staff are trained to be sensitive to the fact that their customers may face such difficulties and be aware of any schemes in place to help them. Similarly, companies providing less flexible credit options that may have higher interest rates than those offered by a bank, should consider people's circumstances very carefully when approving a loan.
- Working with local councils, consumer organisations and third sector organisations with a view to:
  - raising awareness of the cost premiums associated with particular payment methods or forms of credit. A dedicated campaign could be used to raise consumer awareness of the poverty premium on a wider scale. The fact that there is a premium for using methods like PPM or credit services such as payday loans should be more widely promoted to consumers, especially those on a lower income who are the most likely to use such methods. The research suggest that while low income consumers may be willing to pay a certain amount for extra flexibility they may not be aware of how much more they are paying. Visual representations – for example, diagrams comparing the costs for

like-for-like consumption on both PPM and Direct Debit payment plans, may be useful for those who find written information on tariffs challenging.

The campaign could issue advice and tips on how low income consumers can avoid paying a premium on different services, which organisations offer lower-interest loans to people on low incomes and how to access different price comparison services, in order to find the best deals. It could also raise consumer awareness of the importance of credit ratings, as well as the range of more affordable credit services that may be available.

The campaign could also make use of case studies and real life stories to encourage switching, particularly in the energy sector. The majority of respondents who had switched a supplier reported positive experiences of doing so. Accordingly, the 'real world' cases should highlight how easy the process can be, and the amount of money individuals can save as a result.

Case studies could also be used to discourage people from taking out high interest loans. As people with proxy experience of debt were among those most averse to the idea of using credit or loans, CAB could publish case studies showing the negative experiences and difficulties of real people who have taken out high interest credit.

- raising awareness of organisations that are available to help the public with financial difficulties generally, and problems relating to bills and credit payments specifically, including CAS, the Money Advice Service, Step Change and Turn2Us, as well as locally provided support services.
- supporting 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. Consumer organisations can work together with libraries (offering free internet access) to raise awareness of the benefits of using the internet, particularly online comparison sites, in making an informed decision about the best deals. Further, additional guidance and support can be provided for consumers who feel they do not understand how to use online comparison sites, for example, older people. Consumers could also be directed to alternatives to online comparison services, such as telephone comparison services.
- improving the ability of people living in rural areas to use online grocery shopping. As respondents living in rural areas generally reported having to travel long distances to access cheaper deals, improving their ability to use online grocery shopping would help tackle some of the issues associated with travel expenses. Consumer organisations could work together with supermarkets to try to reduce delivery charges to those in rural/remote areas.

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