

# THE POVERTY PREMIUM



**FAIR BY DESIGN**

Ending the extra costs of being poor

# THE POVERTY PREMIUM

By their very nature, essential services such as energy, credit and insurance, are needed by everyone. However, the design of these markets means that many people are treated less fairly. This can mean that poorer people pay more for products and services than those who are better off. This is known as the poverty premium. It can also mean that products and services do not meet people's needs, or even that they are excluded altogether.

## Why does the poverty premium exist?

- **The myth of a 'super' consumer.** Essential products and services are designed for 'super consumers.' These are people who never become ill, always have a steady income, are able to understand complex terms and conditions and always have the time and technology to easily find the best deal for them. This is not a reality for everyone.
- **A disconnect** between policymakers/regulators and people's lived experiences of poverty and exclusion.
- **A belief that competition meets all consumers' needs** and that choice exists for everybody. In practice, firms compete for the most profitable and engaged consumers.
- **A lack of ownership** of poverty and exclusion issues between regulators and government, with no clear, transparent way to address them.
- **A lack of a joined up approach** between different regulators and relevant government departments.



**14.5 million** people in poverty in the UK – 1 in 5<sup>1</sup>

**£14,820** household poverty line (after tax and housing costs)<sup>2</sup>

**£490** average poverty premium paid by low income households<sup>3</sup>

**99%** of low income households pay a poverty premium<sup>4</sup>

<sup>1</sup> DWP Households below average income (HBAI) statistics: Statistics on the number and percentage of people living in low-income households in the UK. For financial years ending 1995 to 2020. Calculated as 60% of median household income after housing costs (£14,820 of £24,752).

<sup>2</sup> Ibid

<sup>3</sup> Paying to be poor, University of Bristol (2016)

<sup>4</sup> Ibid

# THE POVERTY PREMIUM: A CUSTOMER PERSPECTIVE

A Fair By Design study of 1,000 low income households accessing the services of national poverty charity Turn2us<sup>5</sup>, found that these households were spending the equivalent of 14 weeks' of food shopping just to access the same services as people who were better off.

People in this study were paying an extra £478 for essentials like energy, credit and insurance because of the poverty premium.<sup>6</sup>



■ **Car insurance** was the biggest contributor to the poverty premium, with some people paying nearly **£300** more a year because they lived in a deprived area. Additional charges for paying monthly instead of annually could mean an extra £160, adding up to a total poverty premium of nearly £500.

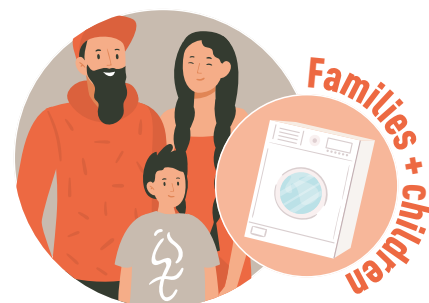
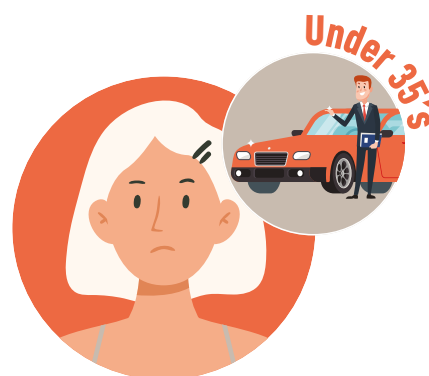


■ **Credit** was expensive when on a low income, whatever form it took. A sub-prime credit card cost around **£200** more a year (between £194-£207) and personal loans cost more than **£500** extra.



■ Being on the best **energy** prepayment tariff could still be **£131** more expensive than the best online-only fixed tariff. But being on a fixed tariff could still be costly: not paying by direct debit cost up to **£143** more a year.

The experience of the poverty premium was diverse among different age groups. It affected under 35s, struggling with the costs of owning a car. For over-65s who were digitally excluded, they're unable to access and engage with the market, such as switching online to the best energy or insurance deal. There were higher switching rates among families with young children, but they were more likely to use expensive forms of credit for household goods like washing machines or fridge freezers.



Poorer households were spending the equivalent of 14 weeks' of food shopping just to access the same services as people who were better off

<sup>5</sup> The poverty premium: A customer perspective, University of Bristol (2020)

<sup>6</sup> Survey of 1,000 low income households accessing the services of Turn2us in 2019 (not nationally representative and therefore not comparable to the University of Bristol's 2016 study). Poverty premiums not included in the methodology for this study that were included in the University of Bristol's 2016 study: difficulty accessing good value shops; paper billing; and pre-paid card fees.

# PROTECTED CHARACTERISTICS

## AND THE POVERTY PREMIUM

Research commissioned by Fair By Design<sup>7</sup> found that people with certain protected characteristics are more likely to be paying a poverty premium. This is the case even when compared with low income households as a whole.

The findings suggest that the UK marketplace is discriminating against groups of people, albeit indirectly.

We already know that some protected characteristics are linked to an increased risk of poverty. But, as our research shows, the resilience of people with certain protected characteristics is also affected by having to pay a premium for being poor.

**Intersectionality also plays a large role: the more protected characteristics a person has, the more likely they are to be in poverty – and paying a poverty premium.**



■ **Energy:** People from Black, Asian and other ethnic minority households are more likely to be paying extra costs for energy, paying on receipt of a bill, rather than by direct debit, which is

usually cheaper. Single parents are more likely to pay for energy through more expensive prepayment meters. These groups are more likely to be in low-paid or insecure work, and therefore need more flexible payment methods to help keep control of their finances. Disabled people are more likely to be paying by either of these methods, than non-disabled people.



■ **Credit:** High-cost credit premiums are also more prevalent among some low income households. Single parents and under-35s are most likely to use high cost credit.

There is also evidence that Black and Asian households are more likely to have reduced access to bank loans or be excluded from the credit card market.



■ **Insurance:** People from Black, Asian and other ethnic minority households, lone parents, and people with disabilities, are more likely to be without insurance.

The issue of underinsurance is a hidden or 'latent' poverty premium. People go without insurance for a range of reasons including high prices, unsuitable products, or being refused cover. But this leaves them excluded from the market and susceptible to paying over the odds when something goes wrong, sometimes having no choice but to resort to expensive credit.

People with certain protected characteristics are more likely to be paying a poverty premium



<sup>7</sup> The inequality of poverty, University of Bristol (2021)

# HOW CAN WE TACKLE THE POVERTY PREMIUM?

Everyone should have access to the essential services and products they need at a price they can afford.

Regulators' price caps on credit and energy help tackle affordability, and government initiatives like the Warm Home Discount scheme and the No Interest Loans scheme can also help those on low incomes.

## Inclusive Design

We also welcome recognition by the Competition and Markets Authority, Financial Conduct Authority, and Ofgem, of the importance of inclusive product and service design by firms. Inclusive design is increasingly recognised as a way to ensure markets, products and services are fair and inclusive, especially for consumers in vulnerable circumstances.

However, regulators (and their sponsoring government departments) should themselves adopt inclusive design strategies to:

- help set their priorities
- develop and implement their interventions
- assess their effectiveness
- guide their expectations of business



To help make a start, Fair By Design, in partnership with the Money Advice Trust, has produced a guide for regulators.<sup>8</sup>

## The need for regulatory action

But across markets, regulators need to fully investigate the poverty premium and implement interventions that will ensure people pay a fair price for essential services. As part of this we want to see the successes that the CMA has had in addressing the loyalty penalty replicated for the poverty premium.

## The Public Sector Equality Duty

Another good place for regulators and policymakers to start to tackle the poverty premium is via their work to meet their Public Sector Equality Duty.

The Socio-Economic Duty, in Section 1 of the Equality Act 2010 has not been brought forward into legislation in England and Northern Ireland.

However, the Scottish Government introduced the Duty as part of the Fairer Scotland Act, and Wales introduced it in March 2021. Local authorities in Wigan, Bristol, and Islington have also voluntarily adopted the Duty. It means that public bodies have to take steps to address socio-economic inequalities.

Regulators and policymakers should also take action now even if there is no legal obligation, ensuring that, for example, socio-economic status is properly considered when implementing Equality and Impact Assessments.

## Addressing the social-regulatory policy gap

Tackling the poverty premium requires a joined-up approach. Action by regulators and government is needed on who owns the problems and how they should be addressed. By bridging social and regulatory policy, adequate interventions can be put in place.

Consumer organisations also need a clear, open, and transparent process to easily engage with, on issues that involve a mixture of both regulatory and social policy. An entity needs to own this process and have responsibility for it.



# FAIR BY DESIGN

Ending the extra costs of being poor

Fair By Design (FBD) is dedicated to reshaping essential services like energy, credit and insurance, so they don't cost more if you're poor. We collaborate with regulators, government, and industry to design out the poverty premium, so that people on low incomes pay a fair price for essential services. Our Venture Fund provides capital to help grow new ventures that are innovating to make markets fairer.

The Barrow Cadbury Trust manages our advocacy work,  
and Ascension Ventures manages the Fund.

For more information or to discuss further please contact  
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