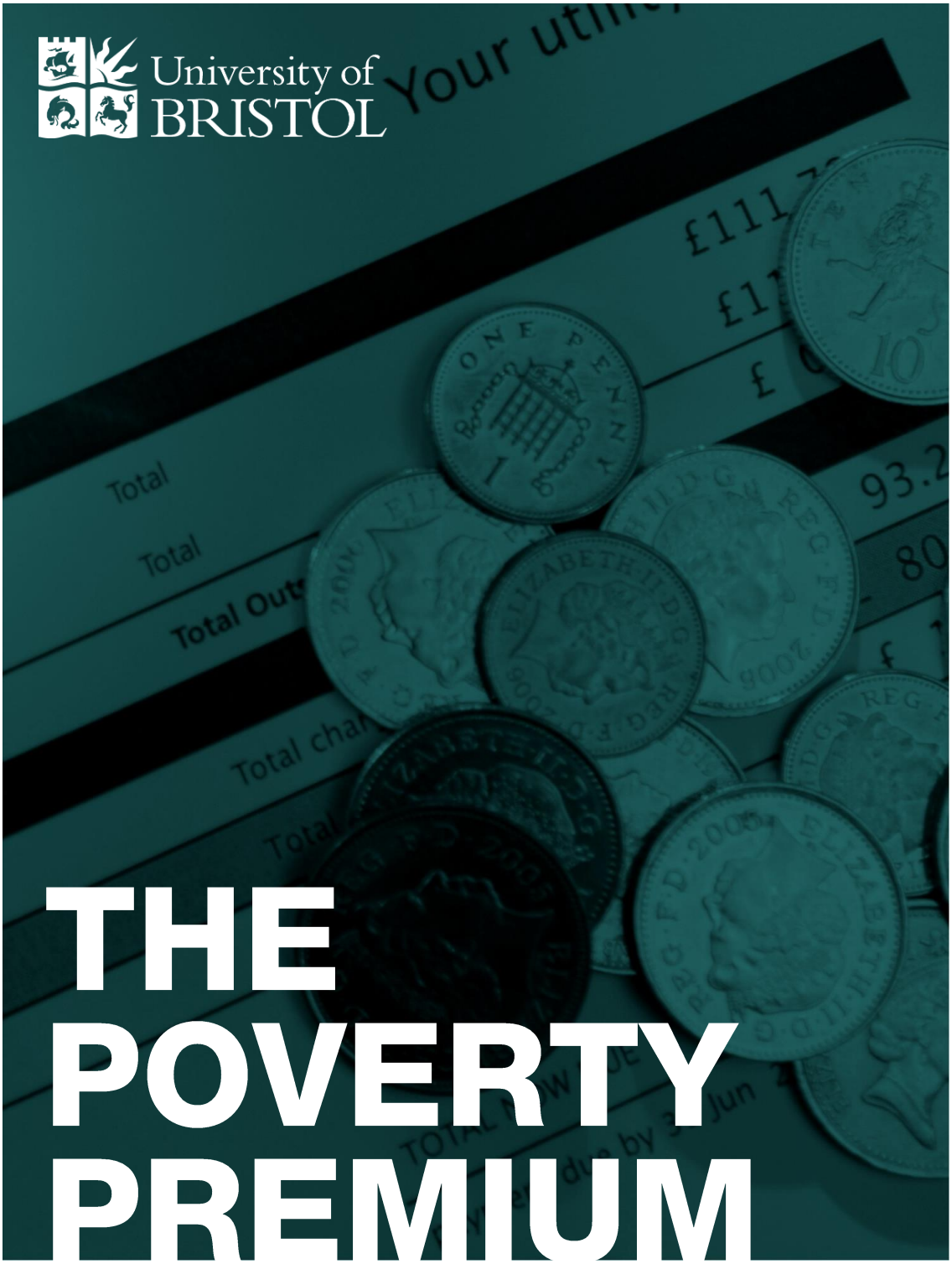

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# THE POVERTY PREMIUM IN 2022

## PROGRESS & PROBLEMS

April 2023

Sara Davies &
Jamie Evans

Supported by
FAIR BY DESIGN
Ending the extra costs of being poor

# THE POVERTY PREMIUM IN 2022 – PROGRESS & PROBLEMS

## ABOUT THIS REPORT

This report was published by the University of Bristol in April 2023.



The report was produced by the Personal Finance Research Centre (PFRC) at the University of Bristol. PFRC is an interdisciplinary research centre exploring the financial issues that affect individuals and households.

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# QUICK READ

## Context

Since 2016, the UK has suffered a series of economic shocks, which have had a detrimental impact on household incomes, particularly those at the bottom of the income scale. Events such as the vote to leave the EU, the Covid pandemic and subsequent lockdown, and the current cost of living crisis have left lower-income households with static or decreased incomes and far higher costs. **The financial precarity of those on the lowest incomes, therefore, has markedly increased since the 2016 study was conducted**, and it is in this context that we analyse and understand changes to the level and nature of poverty premiums experienced, as well as consider how any financial support offered by the government may alter the effect of them. What remains unchanged, however, is the importance or reducing these premiums for those who can least afford it.

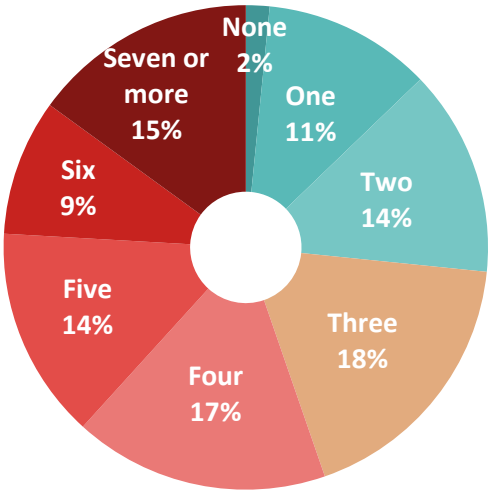
## Methods

This study aims to build on and update the 2016 study,[1] while drawing on the similar 2019 study,[2] The findings are based on a representative survey conducted in 2022 of 741 respondents whose household income was below 70% median income equivalised for household size. Representative costs for each component of the poverty premium were then calculated using a desk-based costing exercise. These data were analysed to calculate the prevalence of each poverty premium, the costs that are therefore incurred, and to understand who is most at risk from which premiums. The majority of costs were calculated as of autumn 2022, but the costs for energy customers paying by prepayment or on receipt of bill were revised in April 2023 to reflect rapid changes in the energy market.

## Findings

Almost all low-income households experience at least one type of poverty premium (98% – similar level as in 2016), and the average low-income UK

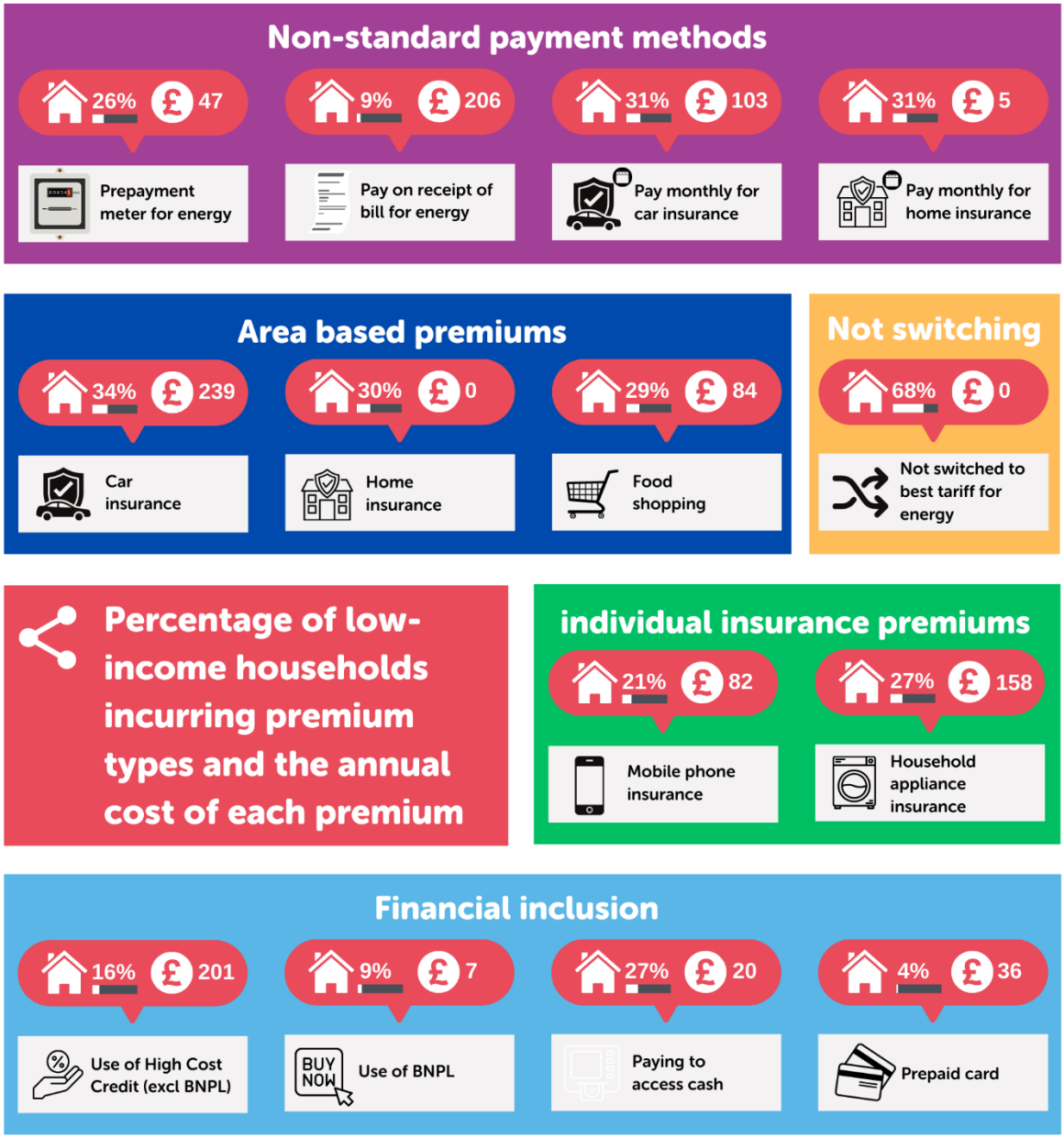
[1] Davies, Finney & Hartfree (2016) Paying to be poor: Uncovering the scale and nature of the poverty premium
[2] Davies & Trend (2020) The poverty premium: A customer perspective




household incurred 3.5 premiums. Nearly two-in-five (38%) low-income households incurred five or more different types of premium.

**Left: Number of poverty premiums incurred by low-income households in 2022**

**Below: Infographic showing the proportion of low-income households incurring each individual type of premium and the cost attributed to each premium in our 2022 costing exercise.**



## The poverty premium and paying for energy

The domestic energy landscape has gone through major changes since the 2016 research was conducted. In 2017, a tariff cap for those on prepayment meters was introduced, before being expanded in 2018 to include all payment methods. By 2020, the average UK household on a standard variable tariff was paying a historic low of £1,042 – but the energy crisis of 2022 saw this accelerate up to £1,971 by April 2022 and more than £4,000 by January 2023.[3] The Government's Energy Price Guarantee limited what an average household would pay to £2,500 from October 2022, but by this point the energy market had changed significantly, with important ramifications for the poverty premium discussed below.

In the Spring Budget of 2023, the Government announced that it would be ending the premium paid by households using prepayment meters from July 2023. This announcement came too late for the majority of analysis in this report; however, in section 2.3 we have illustrated how this is likely to impact the average low-income household.

### Switching to the best tariff

One key consequence of the increase in the tariff cap, as discussed above, has been the **almost complete disappearance of cheaper tariffs that would enable customers to switch to reduce their gas and electricity costs**. In September 2022, when the costings for this report were collated, there were no fixed rate tariffs that were lower than the Ofgem Tariff Cap, by any payment method. However, the actual cost to the customer has risen dramatically, so those in poverty will be struggling far more than they were back in 2016, even though the poverty premium has disappeared or been much reduced. While the implementation of the Energy Bills Support Scheme,[4] may be temporarily protecting lower-income households, the impact is still keen. We would expect the energy poverty premium to return once switching suppliers to gain better deals becomes possible, unless options such as a new energy social tariff are implemented ahead of time.

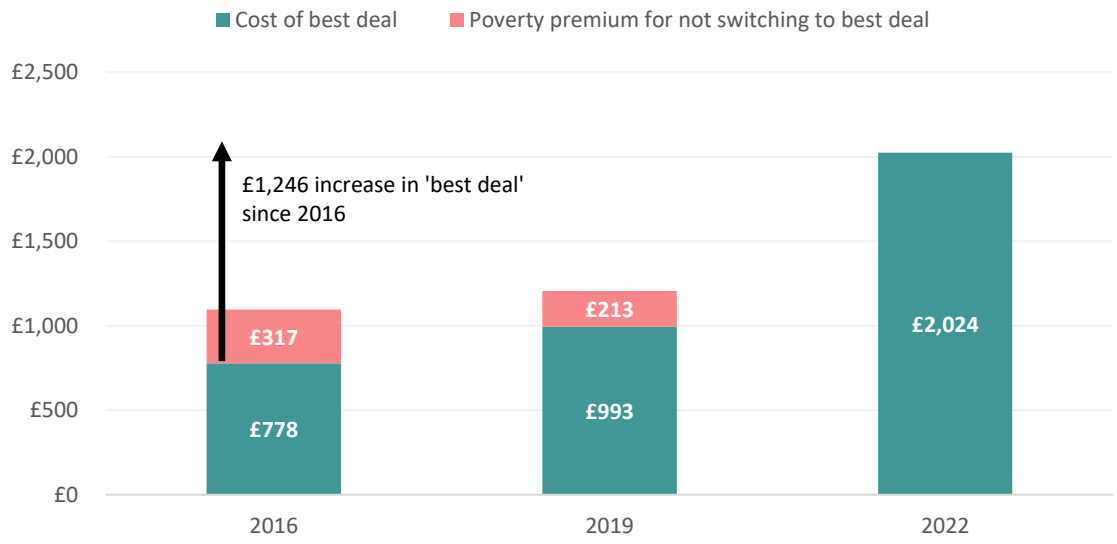
### Prepayment meters

The cost of gas and electricity for those who have a prepayment meter (PPM) for gas or electricity has been higher than those who pay by Direct Debit, and this difference remained when this research was conducted in 2022 (though the Government has since announced an intention to remove this poverty premium from July 2023). The cost of this premium has been reducing since 2016, from £70 to £47 and from July 2023 this will fall to £0 – though issues related to lesser ability to 'smooth' expenditure throughout the year will remain (which are not accounted for in this research). The number of low-income households incurring this premium has also dropped, from 32% to 24% using PPMs for electricity and from 27% to 20% using PPMs for gas. This may be as a result of a policy to phase out PPMs and move households onto smart meters. However, given the large increase in energy bills and energy debts

[3] This is the tariff cap for standard tariff paid by Direct Debit.
[4] GOV.UK (N.D.) 'Help with your energy bills'

throughout the course of 2022[5] we may start to see this trend reversed. Use of PPMs is more common among those renting in both the private and social sector, and **it is the very poorest of households who are most likely to have prepayment meters.**

**Below: The rise in energy costs in recent years far exceeds any reduction in the poverty premium**




### Paying on receipt of bill

The opposite has occurred among those who pay for electricity or gas on receipt of bill; these premiums have increased over the years, rising from £43 in 2016 to £132 in 2022 and £206 as of April 2023; **higher than those who pay by PPM**, through higher tariffs. However, there has been little change in the proportion of low-income households incurring any of the premiums between 2016 and 2022. Paying on receipt of bill appears more common among older households. Premiums for paying monthly for insurance, however, appear to be mainly incurred by a younger group of households, and there has been little change in the number who incur them. The cost of paying monthly for car insurance has risen from £81 in in 2016 to £103 in 2022.

## Area-based poverty premiums

### Insurance

Overall around a third of households incur these premiums. Among low-income households who have insurance, over half live in a deprived areas; 55% with contents insurance and 57% with car insurance. Comparatively, this shows a slight, significant increase in the proportion incurring each premium. The cost implication has disappeared for home contents insurance, from £14 in 2016, but the poverty premium for car insurance has increased dramatically; rising from £74 in 2016 to £239 in 2022.

[5] See, for example: Wilson (2022) 'Vulnerable smart meter customers could be forced onto prepayment as energy bills soar'

### Food shopping

Overall, just under a third of low-income households (30%) incur a poverty premium for doing at least a quarter of their food shopping at smaller, more expensive outlets – above the UK average of doing 17% of shopping in these establishments. Overall, this costs these households an average of £84.

## Individual insurance poverty premiums

Overall, the cost of insuring appliances or mobile phones has remained broadly static since 2016, although the number of people doing this has risen considerably. In 2016, just 13% reported having insurance for specific household items like kitchen appliances, but in 2022 this has risen to 27%. The propensity to have mobile phone insurance also increased, albeit at a lesser level, rising from 16% of low-income households in 2016 to 21% in 2022. Those who had purchased mobile phone insurance were typically of working age and had a higher or average income for their age.

## Financial inclusion poverty premiums

### Access to money

While concerns over continued free access to cash have become increasingly prominent in recent years, and the number of fee-charging ATMs may have increased, there has been little change in the amount that consumers can expect to pay when withdrawing cash from a pay-to-use machine – £1.68 in 2022. A slightly higher proportion of low-income households reported having used a pay-to-use cash machine in the last 12 months in 2022 (29%) than in 2016 (27%). While students are most likely to have used a fee charging ATM in the last 12 months, it is people with health issues who do so most frequently, and those from a non-white ethnic background. There has been very little change in cost or number using prepaid cards in this time frame.

### Higher Cost Credit

The higher-cost credit market has changed markedly since 2016, and even since 2019, and this has made comparisons difficult. For example, the cost of mail order catalogues has dropped over time – reflecting a shift from some providers to Buy Now Pay Later (BNPL) – and the fluctuation in the cost of buying rent-to-own goods may signify the contracted market of 2022.

Overall, a quarter of low-income households (25%) were found to have used one or more of the forms of credit that we asked about, but this falls to 16% if we exclude BNPL, matching the figure of 16% that we found in 2016.

## Overall cost of the poverty premium in 2022

Overall, the average (mean) poverty premium incurred by a low-income household in 2022 is £217 (with one-in-four low-income households paying at least £317); a considerable drop in comparison with the £490 that the 2016 study found as the average poverty premium then. However, the majority of change we find in 2022 can be explained by one of two factors: **a change in the methodology for attributing costs,** or **the removal of the energy switching premium due to the 2022 energy crisis.** When accounting for both of these factors, **the equivalent premium in 2022 would be £499 per yea**r, little change from the cost calculated in 2016. On this measure, one-in-four low-income households would be incurring a poverty premium of more than £656 per year.

**£217** **was the average poverty premium paid by low-income households in the UK in 2022**

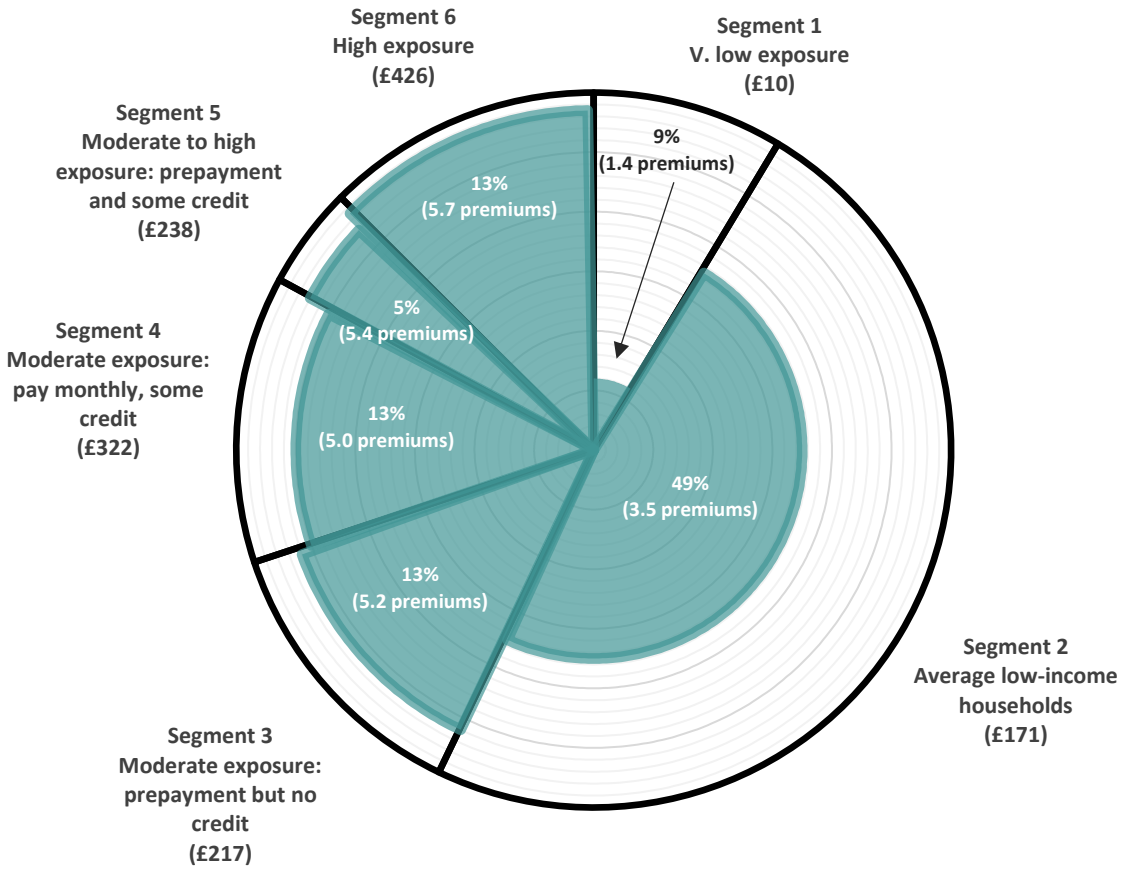
**For one-in-four low-income households this rises to** **£317**

**£419** **would be the average premium paid by low-income households if we remove the (temporary) impacts of the energy crisis**

**Meaning that if previous market conditions return one-in-four low-income household would pay** **£656**

## Segmentation based on level of exposure to different poverty premiums

Our segmentation (below) shows that the impact of the poverty premium is not felt equally among low-income households, with some households incurring many more different types of premium than others and incurring higher costs as a result. This analysis also confirms what we found in 2016: poverty premiums are often a consequence of the extent to which households are fully participating in society. The segments that had the highest exposure were more likely to be households with children and working part time. Both working and having children can mean extra costs, and expenses that have to be met, and doing this while on a low income appears to result in a higher propensity for higher-cost credit use.



# Key industry learning

## High-cost credit

Higher-cost credit remains a 'deep' premium,[6] one that is costly but infrequently incurred. We do see positive developments in the higher-cost credit market as a result of regulation: fewer people are borrowing with payday loans or home collected credit, perhaps reflecting the shrinking market for those products, but many more are using Buy Now Pay Later (BNPL), with some concerns over the sustainability of this. The rising costs of home collected credit should also raise concerns over the unintended impacts of regulation; the HCSTC market is continuing to shrink[7] and adequate alternative provision needs to be easily accessible to those who need it.

## Energy

The particular and unusual circumstances of the energy market in the UK in 2022 have had a huge impact on the poverty premium. The change to the cost incurred (or not) through not switching to the best energy tariff cannot be understated; it was the biggest single contributor to the 2016 poverty premium, and was incurred by the greatest number of people then. If cheaper tariffs do return, then the poverty premium may end up being substantially higher again. Those on PPMs, generally the poorest households, and those who pay on receipt of bill are still being charged more. And even without a poverty premium, many on low incomes are struggling to manage their bills. Government and regulators need to give serious thought to how households can manage energy bills over the next few years.

## Insurance

Car insurance, particularly the geographical element but also the extra cost of paying monthly, is the key concern in 2022, having demonstrated the biggest increase since 2016. Over half of the households who had a car were incurring substantial extra costs to insure their vehicles – a legal obligation. More clarity on how risk is spread across the population may help alleviate some of these extra costs, if it leads to the implementation of regulatory and/or social policy change.

# Policy implications

The similarities in the profiles of poverty premium exposures between 2016 and 2022 indicates that certain patterns of payment are difficult to avoid. There is surprisingly little change in the number of households incurring each particular premium, which implies that relying on individuals to change their behaviour may not have the impact that wanted. Fundamentally, **the poverty**

[6] Finney & Davies (2017) Making the poverty premium history – a practical guide for business and policy makers

[7] Fair4all Finance (2022) Blog: illegal money lending and the changing credit market.

**premium represents a mismatch between the needs of those on low incomes and the markets that serve them.**

Conversely, it is evident that **regulation and social policy can make a real difference to reducing or even eliminating the poverty premium**; in both the energy market and the HCSTC market, regulation has changed the level and nature of the way in which the poverty premium occurs. However, as is also clear, this is not necessarily of benefit to those in poverty. The changes to the HCSTC market have resulted in higher prices for some forms of credit, and while the tariff caps did reduce the poverty premium initially, they have failed to protect low-income consumers from high energy prices. Therefore, a more nuanced approach to the development of regulation and social policy may decrease poverty premiums across of number of areas and **so regulatory bodies and government departments should consider regulations and policies that address the specific inequalities experienced by those on low incomes and with protected characteristics.**

Finally, the financial outlook for those in low-income households in the coming year is grave, and it seems unlikely that this will change for the better in the short term. Policymakers should consider longer-term, sustainable ways in which those who are financially vulnerable can be supported in managing their bills, ideally **introducing permanent social tariffs for essential services**.

# 1 INTRODUCTION

## In this chapter we consider the economic and social context in which the research was conducted and reflect on how understanding of the poverty premium has changed over time.

This report details findings from a study to understand how the nature, cost and prevalence of poverty premiums in the UK have changed since an earlier study on the scale and nature of the poverty premium was undertaken in 2016.[8]

## 1.1 The context to this research

The poverty premium is the term used to describe how those in or near poverty – living on low incomes – pay more for essential goods and services than those who are not. While the concept of the poverty premium dates back to the 1960s,[9] a resurgence of interest, from a UK policy perspective at least, dates back to a report published just before the global financial crisis of 2007-08. The report[10] detailed the ways in which those in poverty were paying more for services such as credit, energy, accessing cash and insurance. In the years since then there has been a continued exploration of these inequitable costs, and addressing the poverty premium is now well-established as a policy aim within UK.

The fiscal policies pursued by successive UK governments since the 2007-08 crisis have had a negative impact on household incomes, particularly those at the bottom of the income scale. Real mean disposable income was no higher in 2018-19 than in 2007-08,[11] and the cumulative effect of cuts to the benefit system over a decade of austerity left the most vulnerable households in a

[8] Davies, Finney & Hartfree (2016) Paying to be poor: Uncovering the scale and nature of the poverty premium
[9] Caplovitz (1963) The poor pay more: Consumer practices of low-income families
[10] Save the Children and Family Welfare Association (2007) The poverty premium – how poor households pay more for essential goods and services
[11] Corlett (2020) 'Charting the UK's lost decade of income growth'

worse position, with the majority of people in poverty living in working households[12] and levels of child poverty rising.[13]

However, since the 2016 study – which empirically measured the poverty premium for the first time – the UK political and economic situation has been particularly volatile, with a series of events affecting the financial situation of those on the lowest incomes. The vote to leave the EU in 2016 resulted in an immediate drop in the value of the pound, with a subsequent increase in inflation, notably food cost inflation rising to as high as 4.4%.[14] Food inflation, then as now, is recognised as being higher[15] and more damaging to those in lower income households,[16] and harder to deal with for those with static or falling incomes.

Then in March 2020, the world was hit by the coronavirus pandemic. The UK's early response to this crisis was a lockdown from the evening of Monday 23rd March, closing all non-essential retail businesses, and asking those who were able to work from home to do so. The government provided significant financial support to households for this.[17,18] Nonetheless, low-income workers remained nearly twice as likely to have been furloughed, to have lost hours or pay, or to have lost their jobs altogether than higher paid workers,[19] and the support was less effective for those who were self-employed, or working in the gig economy.[20]

And finally, as the fieldwork for this report was underway, the UK was amid a cost-of-living crisis and facing the highest inflation rates since the early 1980s. By April 2022, just prior to the start of this study, the Consumer Price Index 12-month rate was 9%, and the cost of gas and electricity had doubled in the 12 months to October 2022. A periodic financial wellbeing tracker survey found that the number of households who were struggling or in serious financial difficulty had risen from 17 per cent in October 2021 to 36 per cent in June 2022,[21] with the biggest increases for those on low incomes, single parents, disabled households and renters, among others.

The financial precarity of those on the lowest incomes, therefore, has markedly increased since the 2016 study was conducted, and it is in this context that we analyse and understand changes to the level and nature of poverty premiums experienced. As we discuss further into the report, the current shape of the poverty premium has been changed by temporary support packages, but these cannot necessarily be relied on in the future.

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[12] Barnard (2022) Want
[13] Tucker (2017) The austerity generation: The impact of a decade of cuts on family incomes and child poverty'
[14] De Lyon & Dhingra (2019) 'The impact of the Brexit vote on the economy is now clear'
[15] BBC (2022) ONS inflation measure shake-up
[16] House of Commons Library (2022) 'Research on the increasing cost of living and inflation'.
[17] GOV.UK (2021) 'Check if you can claim for your employees' wages through the Coronavirus Job Retention Scheme'.
[18] GOV.UK (2021) 'Check if you can claim a grant through the Self-Employment Income Support Scheme'.
[19] Cominetti & Slaughter (2020) Low pay Britain 2020
[20] Kempson *et al* (2020) Emerging from lockdown
[21] Evans & Collard (2022) Under pressure

What remains, however, is the importance of reducing these premiums for those who can least afford it.

## 1.2 The poverty premium since 2016

### 1.2.1 Measuring the poverty premium

The 2016 report was the first in the UK to quantify the average cost of the poverty premium to the average low income household. This was achieved by collecting new data to show how the poverty premium is actually experienced. The analysis exposed patterns and provided detailed insight into how the premium is experienced by households, as well as its estimated cost to household budgets. Since then, further research has taken a fresh approach to understanding and measuring the poverty premium in the UK.[22,23] Notably, there has been an interest in the production of a measure to track the overall poverty premium at a national level. The Competition and Markets Authority commissioned a feasibility study to investigate the measurement of the poverty premium in the UK.[24] There has also been interest in measuring other areas where often vulnerable customers are disadvantaged: for example, the methodology was adopted by Citizen Advice, to calculate a mental health poverty premium.[25] However, to date, no other measurement of the UK poverty premium has been produced.

### 1.2.2 The importance of regulation and market intervention

The conceptual framework of the poverty premium for the 2016 report understood that it was produced through the interaction between demand-side factors, such as budgetary constraints or risk aversion, supply-side factors, such as general market practices or cost reflective pricing, and compounding factors, such as geography, digital capacity or financial capability. This approach built on work supported by the Joseph Rowntree Foundation to understand the role that regulation could play in addressing the poverty premium,[26] and this remains as the framework that underpins our analysis in this report. This understanding of the poverty premium as a *"mismatch between the needs and circumstances of low-income households and the markets that serve them"* [27] has shaped the nature of the subsequent research, and particularly the engagement with the subject from both policymakers and social investment.

Governmental bodies have engaged seriously with the concept of the poverty premium since 2016: throughout 2018 and 2019, it was the focus of an Inquiry

[22] Corfe & Keohane (2018) Eliminating the poverty premium in energy
[23] Whitham (2018) The poverty premium in Greater Manchester
[24] Tipping *et al* (2019) Advice on the measurement of the poverty premium across UK markets
[25] Rogers, Poll & Isaksen (2019) The mental health premium
[26] Hirsch (2013) Addressing the poverty premium: Approaches to regulation
[27] Davies & Finney (2017) Making the poverty premium history – a practical guide for business and policy makers

by the All-Party Parliamentary Group on Poverty,[28] and, as noted above, the Competition and Markets Authority (CMA) commissioned a feasibility study into ways to measure it. In 2018, Citizens Advice submitted a super-complaint to the CMA calling on it to identify remedies and recommendations to put an end to the penalty paid by loyal and disengaged consumers. In their response, it was noted that *"the CMA states 'in the past too much has been asked and expected of consumers and not enough from businesses' with regard to tackling the loyalty penalty.*" [29] The idea that the onus cannot always be on customers to get the best deal has begun to gain traction.[30]

The importance of recognising and addressing the needs of customers with vulnerabilities within markets has grown,[31,32] and also recognition that a low income in itself can be a vulnerability.[33] The FCA will be introducing a new Consumer Duty in 2023/24,[34] again further recognising the primacy of considering consumer needs, particularly in terms of their support requirements.

Most importantly, regulation has been introduced that is having a concrete effect on the poverty premium. The cap on the total cost of credit[35] and Domestic Gas and Electricity (Tariff Cap) Act 2018 intervene in their respective markets to an extent that is more 'anti-competition' than any intervention since the inception of the CMA.[36] The Institute and Faculty of Actuaries has sought to understand the effect of poverty premiums within the insurance market to begin to address the impact in this area.[37] Prior to this, the FCA had clarified regulatory duty regarding treating customers fairly, and regulation was introduced to prohibit the sale of extended warranty on Rent-to-Own goods at the point of sale. All of these have had a demonstrable impact on the cost of the poverty premiums incurred.[38]

Campaigners and social investors have also engaged in work to address the poverty premium. In the policy field, reducing or eliminating the poverty premium is now a key part of many anti-poverty strategies.[39,40] In 2017, Fair by Design was set up by JRF and Big Society Capital as both a Social

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[28] APPG on Poverty (2019) 'APPG publishes report on inquiry into the poverty premium'
[29] CMA (2018) quoted in Davies & Trend, L (2020) The poverty premium: A customer perspective
[30] Ibid.
[31] Ofgem (2019) Consumer vulnerability strategy 2025
[32] Financial Conduct Authority (2021) FG21/1 Guidance for firms on the fair treatment of vulnerable customers
[33] Competition & Markets Authority (2019) Consumer vulnerability: Challenges and potential solutions.
[34] Financial Conduct Authority (2022) PS22/9: A new Consumer Duty
[35] FCA (2014) Detailed rules for the price cap on high-cost short-term credit
[36] Davies & Finney (2020) From headline statistics to lived experiences: A new approach to measuring the poverty premium
[37] Fair By Design & The Institute and Faculty of Actuaries (2021) The hidden risks of being poor: the poverty premium in insurance
[38] Davies & Trend (2020) The poverty premium: A customer perspective
[39] Bayliss & Mattioli (2018) Privatisation, inequality and poverty in the UK
[40] Walsh, Lowther, McCartney & Reid (2020) Policy recommendations for population health

Investment fund to invest in ventures that aim to make markets fairer, and as policy and advocacy campaigners to do the same.

### 1.2.3 The heterogeneity of poverty

Finally, it is important to remember that poverty is not experienced in the same way by everyone, and this will impact on how and which poverty premiums are most harmful. Firstly, more work has been done to understand the needs of different households; while the 2016 report produced typologies of different patterns of exposures, in 2019, research was conducted to understand *how* these demand-side factors arose from the perspective of single parents, for example, or those in insecure work.[41] Research has been done on the inequality of how the poverty premium is incurred, and the extent to which the Equality Act could be of importance in redressing this.[42] The impact of where you live on the poverty premium has also recently been mapped.[43]

There has also been more detailed research into how specific elements of the poverty premium operate; the Institute and Faculty of Actuaries report on insurance noted above, and notably, much work to explore the poverty premium in the energy market.[44,45]

This study, therefore, has been conducted with the benefit of this increased knowledge and understanding of the different needs and motivations of low-income household payment methods, and the changing response of both policymakers and businesses.

## 1.1 About this study

This study aims to build on and update the 2016 study, drawing on the similar 2019 study[46] (see below). The majority of questions asked in the survey remained the same, however some were adapted or removed to reflect changes since 2016. We surveyed a representative sample of over 4,000 people, who were then screened to include only the 741 respondents whose household income was below 70% median income equivalised for household size.[47] Representative costs for each component of the poverty premium were then calculated using a desk-based costing exercise. These data were analysed to calculate the prevalence of each poverty premium, the costs that are therefore incurred, and to understand who is most at risk from which

[41] Davies & Trend (2020) The poverty premium: A customer perspective
[42] Davies & Collings (2021) The inequality of poverty: exploring the link between the poverty premium and protected characteristics
[43] Evans & Davies (2022) Mapping the poverty premium in Britain
[44] Corfe & Keohane (2018) Eliminating the poverty premium in energy
[45] ESAN (2021) 'The poverty premium: A consumer perspective webinar'.
[46] Davies & Trend (2020) The poverty premium: A customer perspective
[47] As in 2016, we define low-income households as those with an income of 70% of median income or below, after housing costs. This definition is higher than the standard 'poverty line' measure of 60 per cent of median income widely used in UK research. We use the term 'low-income households' to describe the population of those in or near poverty.

premiums. Further details about the research methods are provided in the Appendix A.

**2016** Our first nationally representative survey of low-income households' experiences of the poverty premium.

**2019** Poverty premium costs re-collected and applied to a smaller (non-nationally-representative) sample of Turn2us clients.

**2022** New nationally representative survey of low-income households.

# 2 COUNTING THE COST OF THE POVERTY PREMIUM

**In this chapter we consider changes over time in the costs to low-income households caused by different types of poverty premium, and how the proportion of low-income households that incur each poverty premium has changed since our last nationally representative survey in 2016.**

## 2.1 Exposure to the poverty premium

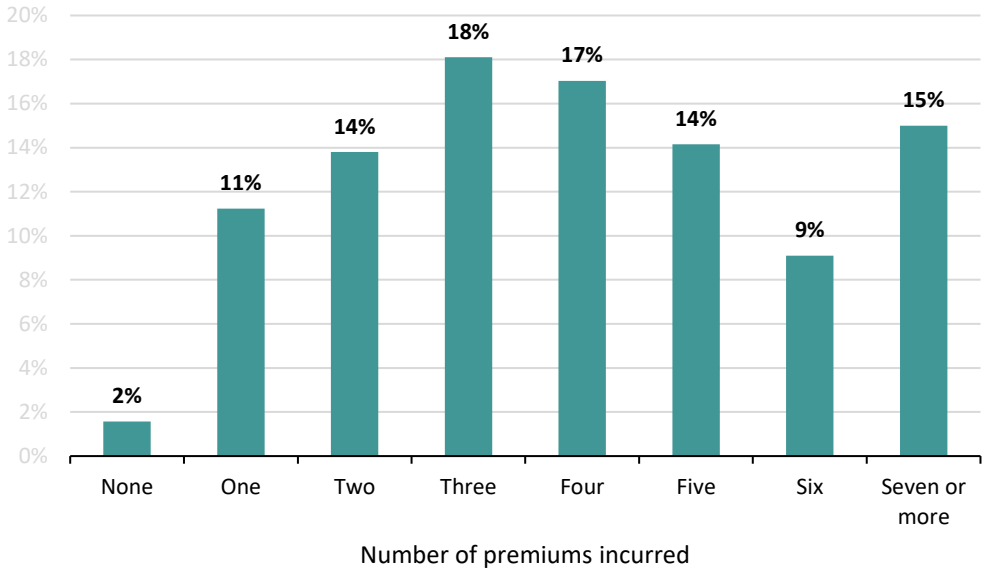
Our research suggests that the vast majority of low-income households experience at least one type of poverty premium. In 2022, 98% of low-income households incur one or more premiums, similar to the 99% figure that we identified in our previous nationally-representative survey conducted in 2016 – and any minor reduction is caused entirely by the use of tighter definitions of certain premiums in 2022.[48]

The average low-income household incurs about four different types of poverty premium, with around three-quarters (73%) incurring three or more premiums, over half (55%) incurring four or more, and more than a third (38%) incurring five or more. This highlights the challenge that is faced in reducing the poverty premium that low-income households pay, as it requires action across multiple domains.

[48] If we replicate the 2016 definitions for every premium on the 2022 dataset, we find that 99% of low-income households incurred at least one type of poverty premium in 2022.

**Figure 2.1, Exposure to different poverty premiums among low-income households**

% of low-income households incurring X number of poverty premiums




Notes: Base = 741 low-income households. Shows number of different types of poverty premium incurred, including types of premium which currently may not have a cost attached to them (such as not switching energy provider). We ask about a total of 25 different types of poverty premium, but some are mutually exclusive (e.g. a household cannot pay for their electricity both by prepayment meter and on receipt of a bill (rather than direct debit)).

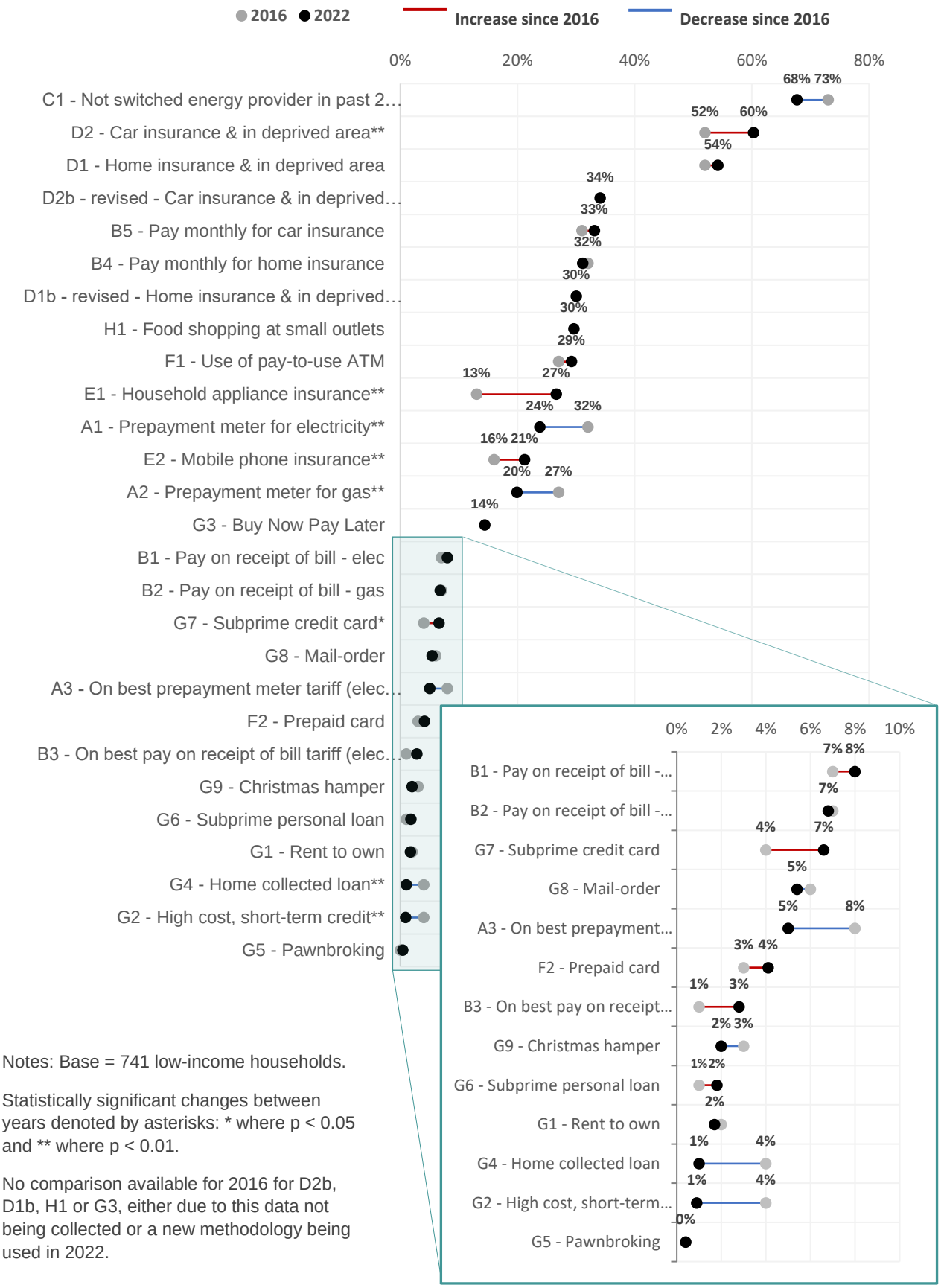
Figure 2.2 meanwhile shows how the percentage of low-income households experiencing each type of poverty premium has changed between 2016 and 2022. While some premiums are slightly less common than they were in 2016, others have become more prevalent; and the majority remain largely unchanged. Later in this chapter, we explore each type of the poverty premium in more detail.

## 2.2 The overall cost of the poverty premium

As in 2016 and 2019, we have assigned a nominal value, in pounds and pence, to each component of the poverty premium, based on desk research and available market data. Having obtained a cost for each type of poverty premium, we have then used our survey data to infer what level of costs are borne by which low-income households.

**Figure 2.2, Changes in exposure to each type of poverty premium, 2016 to 2022.**

% of low-income households incurring each premium 2016 and 2022.




Notes: Base = 741 low-income households.

Statistically significant changes between years denoted by asterisks: * where $p < 0.05$ and ** where $p < 0.01$.

No comparison available for 2016 for D2b, D1b, H1 or G3, either due to this data not being collected or a new methodology being used in 2022.

Such an approach is preferable to asking households directly how much they pay because: a) it may be difficult for households to recall or calculate exact expenditure, and b) some low-income households may be restricting their usage of goods or services, such as energy, precisely because they pay a poverty premium. We are interested therefore in the like-for-like comparison between low-income households and the 'average' household if they were to have the same level of usage.

Wherever possible, we have used the same assumptions and data sources as we used in 2016[49] and 2019.[50] However, in some sectors, notably high-cost short-term credit (HCSTC), the landscape of both operators and products has changed considerably. The domestic energy market has also undergone radical transformation since winter 2021/22. For other premiums – including our area-based premiums,[51] access to money premium[52] and access to affordable food premium[53] – we have collected additional data that allows us to refine our measurement of the poverty premium. Because of these various changes, we provide a number of different figures for the overall cost of the poverty premium to low-income households. Full details of how we arrived at each cost, including our assumptions, are provided in the Appendix.

### What is the average cost of the poverty premium to low-income households:

**The average poverty premium paid by low-income household in the UK in 2022 is**

**£217**

**£419**

**would be the average premium paid by low-income households if we remove the (temporary) impacts of the energy crisis**

[49] Davies *et al* (2016) Paying to be poor: Uncovering the scale and nature of the poverty premium. Costing methodology appendix
[50] Davies and Trend (2020) The Poverty Premium: A customer perspective
[51] Previously, the research assumed that all low-income households with car/home contents insurance would incur an area-based poverty premium. In 2022, however, we have collected additional data about the deprivation quintile in which each household lives. This allows us to refine our measure for the area-based premiums, lowering the number of households affected.
[52] These include asking respondents how many times they have used a pay-to-use ATM in the past 12 months, rather than making assumptions about their likely behaviour; and adjustments to assumptions made about use of different types of high-cost credit (based on new data about their usage).
[53] In the 2016 survey, a question was asked about access to good value food; however, this was removed in 2019. In 2022, we have used a new question and new approach to measuring this premium. We therefore work on the assumption that in 2016 and 2019 this premium did not apply, so the averages presented for 2016 and 2019 do not include this premium.

As Table 2.1 shows, the average (mean) cost of the poverty premium to a low-income household in 2022 is £217, while the median value is £182. **This, however, is made considerably lower than 'normal' because the current energy market has led to the effective eradication of a poverty-specific premium for failing to switch energy provider**. In other words, in the current market, there is little to gain financially from switching – as discussed in more detail later. Below we explore a number of ways of calculating the poverty premium to enable fair comparison.

### Table 2.1, The average poverty premium in 2022 varies depending on methodology used

Average cost of the poverty premium incurred by low-income households in the UK in 2022, by methodology and assumptions used to calculate it.

| Methodology to calculate premium | Mean | Median | What to use this methodology for? |
|---|---|---|---|
| 1. 2022 methodology | £217 | £182 | This is our most up-to-date assessment of the current state of the poverty premium in the UK. |
| 2. 2022 methodology, with a return to 2019 non-switching premium | £372 | £345 | As above, but for understanding what the poverty premium would look like if the energy market returned to 'normal'.[54] |
| 3. 2016 methodology | £345 | £329 | This is the best measure for comparing the current poverty premium with our 2016 analysis. |
| 4. 2016 methodology, with a return to 2019 non-switching premium | £499 | £462 | Also for comparisons with 2016, but shows what comparison would look like if the energy market returned to 'normal'. |

Notes: Base = 741 low-income households.

As Table 2.1 shows, the average size of the poverty premium increases if – for comparison purposes – we return to the assumptions used in 2016 and 2019[55] to calculate the poverty premium. Using the same methodology as before, we obtain an average of £345. This is considerably lower than the comparable figures of £478 for 2019 and £490 for 2016 (shown in Table 2.2). Much of this difference, however, is driven by the changes in the energy market – if therefore we assume the 2019 non-switching premiums still applied in 2022,

[54] We have included the 2019 switching premium as an assumption of a 'normal' energy market
[55] Please note that in 2019 no premium was included for being unable to access affordable food.

we actually find very little change. Under such circumstances, the 2022 poverty premium would be £499.

**Table 2.2, Using comparable methodologies, the poverty premium has reduced over time**

Average poverty premium, by year, using most comparable figure.

| Year | Mean poverty premium | Notes |
|---|---|---|
| 2016 | £490 | Nationally representative sample. |
| 2019 | £478 | Sample of Turn2us clients. |
| 2022 | £345 | Nationally representative sample. No energy switching premium. |

## 2.3 How have individual components of the poverty premium changed over time?

While Figure 2.2 outlined how the proportion of low-income households incurring each type of poverty premium has changed over time, Table 2.3 reveals how the costs associated with each type of premium have changed since the 2016 and 2019 studies. In other words, the table shows the costs incurred only by those who are exposed to each type of premium. In the section that follows we then explore each type of premium in more detail in turn.

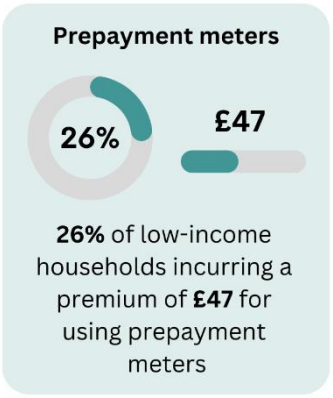
**Table 2.3** **A breakdown of the cost of individual components of the poverty premium in 2022, compared with 2016 and 2019 where direct comparisons are available.**

| | Component of the poverty premium | 2022* | 2019 | 2016 | Change since 2016 |
|---|---|---|---|---|---|
| A | Prepayment meter - electricity | £23 | £29 | £35 | -£12 |
| | Prepayment meter - gas | £23 | £29 | £35 | -£12 |
| | On best prepayment meter tariff | £0 | £131 | £227 | -£227 |
| B | Payment on receipt of bill - electricity | £103 | £54 | £38 | £65 |
| | Payment on receipt of bill - gas | £103 | £54 | £38 | £65 |
| | On best payment on receipt of bill tariff | £0 | £143 | £43 | -£43 |
| | Home contents insurance - monthly payments | £5 | £10 | £9 | -£4 |
| | Car insurance - monthly payments | £103 | £161 | £81 | £22 |
| C | Not switched to best fuel tariff | £0 | £213 | £317 | -£317 |
| D | Home contents insurance - deprived area | £0 | £5 | £14 | -£14 |
| | Car insurance - deprived area | £239 | £298 | £74 | £165 |
| E | Household appliance insurance | £158 | £176 | £132 | £26 |
| | Mobile phone insurance | £82 | £81 | £60 | £22 |
| F | Fee-charging ATM | £20 | £20 | £20 | £0 |
| | Pre-paid card fees | £36 | £33 | £25 | £11 |
| G | Rent-to-own | £303 | £182 | £315 | -£12 |
| | Short-term loan | £245 | £237 | £120 | £125 |
| | Home collected loan | £610 | £644 | £540 | £70 |
| | Pawnbroking loan | £143 | £152 | £50 | £93 |
| | Subprime personal loan | £118 | £557 | £520 | -£402 |
| | Subprime credit card | £203 | £207 | £194 | £9 |
| | Mail order catalogues | £22 | £60 | £178 | -£156 |
| | Christmas hamper scheme | £105 | £47 | £47 | £58 |
| | Buy-now-pay-later (BNPL) | £7 | N/A | N/A | N/A |
| H | Unable to access affordable food | £84 | N/A | N/A | N/A |

Notes: *Costings for 2022 obtained in September-October 2022, except for those for prepayment meters and paying on receipt of bill for energy, which were revised in April 2023 following changes to the energy market. The 2022 values are based on our 2022 assumptions and methodology, as these are the ones we consider most accurate and appropriate for 2022. Colour coding indicates extent of increase (red) or decrease (blue) in cost since 2019.

# A. Use of prepayment meters

**What are the costs of these premiums?**




The regulatory landscape of domestic energy has gone through major changes since the 2016 research was conducted, and the first of these changes was the introduction of the (Prepayment Charge Restriction) Order 2016 which came into action on 1 April 2017. This was supplemented later by the Domestic Gas and Electricity (Tariff Cap) Act 2018, which capped the cost of the standard default tariff as well as the Prepayment tariff, and which eventually incorporated both. Most recently, in response to the energy crisis, since 1 October 2022, this has been superseded by the Energy Price Guarantee (EPG).

The energy crisis is a consequence of a sudden increase in the price of wholesale gas, triggered by a number of factors including a rebound on demand after the lifting of pandemic restrictions,[56] followed by the restrictions on Russian gas to Europe.[57] The way in which the tariff caps were structured meant that these caps rose to an unexpected level by April 2022, rising from an historic low of £1,042 in August 2020 to £1,971 in April 2022.[58] While the recent Energy Price Cap changes the wholesale methodology,[59] this was the tariff cap in place when this research was conducted. However, In the Spring Budget of 2023, the Government announced that it would be ending the premium paid by households using prepayment meters from July 2023.

Nonetheless, before and since the regulation was introduced, the cost of gas and electricity or those who have a prepayment meter (PPM) for gas or electricity has been higher than those who pay by Direct Debit, and this difference remains in 2022:

| Premium | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| A1 - Prepayment meter for electricity | £23 | £29 | £35 |
| A2 - Prepayment meter for gas | £23 | £29 | £35 |
| A1 + A2 - Prepayment meter for dual fuel | £47 | £58 | £70 |
| A3 – Not switching to best prepayment meter tariff | £0 | £131 | £227 |

[56] International Energy Agency (2021) 'What is behind soaring energy prices and what happens next?'
[57] Independent (2022) 'Russia cuts gas through Nord Stream 1 to 20% of capacity'
[58] This is the tariff cap for standard tariff paid by direct debit.
[59] Ofgem (2022) 'Price cap – Decision on changes to the wholesale methodology'

Previous poverty premium research has noted that some households preferred to use a PPM as a means of controlling spending (Davies and Trend 2020 p.22). However, the recent increase in prices has resulted in worrying levels of people self-disconnecting;[60] just not using any fuel at all. Many of these households will have young children and furthermore, will still be paying on average £3.53 a week for electricity and £2.82 for gas.[61] Concern has already been raised that, as more people fall into arrears with their energy bills, they will be forcibly moved onto prepayment meters.[62] Furthermore, those who pay via PPM are unable to spread the costs, so this winter will be faced with the prospect of gas and electricity bills that are far higher than those who have built up a surplus before the price rise in October 2022. Citizens Advice estimate that the four million households on prepayment meters will be spending £1 billion more overall than Direct Debit customers this winter.[63]

**How many low-income households incur these premiums?**

Between 2016 and 2022, we find a slight (but statistically significant) fall in the percentage of low-income households who rely on a prepayment meter for their electricity (from 32% to 24%) or gas (from 27% to 20%). Overall, 26% of low-income households in 2022 face a prepayment premium on either electricity and gas (while 18% incur a premium for both). The decline from 2016 is consistent with the fact that prepayment meters are being phased out over time, as more households move onto smart meters and given that home-movers supplied by the big six energy suppliers can request that their prepayment meter be replaced for free (subject to a credit check).

Smart meters, however, also pose a challenge for the measurement of the poverty premium over time, given that they can more rapidly be changed to prepayment mode than a traditional meter if the customer falls into debt with the energy company, as noted above. This means that the proportion of households incurring a prepayment premium could change relatively quickly, especially given the large increase in energy bills and energy debts throughout the course of 2022.[64] Therefore, while we have seen a decline in prepayment meters (whether traditional or smart) in our survey data, we are already seeing this decline reversed,[65] and it may reverse even further.

We also consider a third premium related to prepayment, which is the premium incurred for being on the best prepayment meter tariff rather than the best tariff for monthly Direct Debit payments. As with the other premiums related to switching, there is no cost associated with this premium in 2022 due to current market conditions; however, we have measured the proportion of

[60] Citizens Advice. In: Energy Live News (2022) 'Prepayment customers 'self-disconnect' as energy bills soar'
[61] April 2022 price cap.
[62] Citizens Advice (2022) Out of the cold? Helping people on prepayment meters stay connected this winter
[63] Ibid.
[64] See, for example: Wilson (2022) 'Vulnerable smart meter customers could be forced onto prepayment as energy bills soar'
[65] BBC 2021 Energy crisis pushing people onto prepayment meters

households who *would* incur such a premium if the market returns to its previous state. We find that 5% of low-income households incur this premium.

**What type of households incur these premiums?**

Housing tenure is a key driver of whether households experience these premiums or not: for example, while just 15% of mortgagors and 6% of outright homeowners have a prepayment electricity meter, this rises to 42% of those who rent from the local authority, 29% who rent from a housing association, and 29% of private renters. Related to this, we see that those who have lower housing costs (except for those who pay nothing due to having paid off their mortgage) are more likely to have a prepayment meter: 42% of those paying £250-499 per month have a prepayment electricity meter, compared to 9% of those paying more than £1,000 per month for their housing.

Figure 2.3 shows this in an alternative way, giving the percentage of low-income households with prepayment electricity meters who fall into different housing situations. Overall, it shows that 33% of those with such meters are renting from their local authority, 25% are private renting and 22% are renting from a housing association. A fifth (20%) of low-income households with such a meter are renting from their local authority and paying £250-449 per month for their housing. By way of comparison, just 5% of low-income households who do *not* have a prepayment electricity meter are in the same housing situation.

**Figure 2.3, Housing situation of those with prepayment electricity meters**

% of low-income households with prepayment electricity meters in different tenures and with different housing costs. Percentages are table percentages.

| | Tenure | | | | | | |
|---|---|---|---|---|---|---|---|
| **Monthly housing cost** | Owned with mortgage | Owned outright | Rented from local authority | Private rented | Rented from housing association | Other | Total |
| Nothing / under £250 | 4% | 4% | 8% | 4% | 6% | 0% | 27% |
| £250-499.99 | 6% | 1% | 20% | 6% | 12% | 0% | 43% |
| £500 - 749.99 | 5% | 0% | 4% | 10% | 4% | 1% | 22% |
| £750 - 999.99 | 0% | 0% | 1% | 4% | 1% | 0% | 6% |
| £1000 or more | 0% | 0% | 1% | 1% | 0% | 0% | 2% |
| Total | 14% | 5% | 33% | 25% | 22% | 1% | 100% |

Notes: Base = 97 low-income households on prepayment electricity meters. Please note that estimates based on sample sizes below 100 are subject to higher sampling error and should therefore be treated with some caution.

Prepayment also appears more common among those in the 25-39 and 40-59 age groups, with 33% and 25% respectively of these age groups having a

prepayment electricity meter. These figures drop to 29% and 22% for prepayment gas meters. As these age groups are more likely to have children, we see that households with children are significantly more likely to have either an electricity (29%) or gas (25%) prepayment meter (compared to 21% and 17% of those without children).

Bearing in mind that we are already looking only at low-income households, household income on its own has no statistically significant relationships with prepayment; however, once we adjust for age (predominantly the fact that retired households typically have lower incomes), then more of a pattern emerges. This shows that the bottom and middle thirds of low-income households for their age are more likely to have prepayment electricity meters (at 30% and 34% respectively, compared with 14% of those in the higher third of incomes for their age).[66] In other words, the analysis confirms that it is usually the very poorest of households who are most likely to have prepayment meters.

## B. Non-standard billing methods

### What are the costs of these premiums?

Premiums relating to non-standard billing methods include those where a household is paying for energy bills after receiving a bill – as opposed to paying by direct debit – and paying for insurance monthly, rather than annually. Currently, choosing the monthly repayment option means taking out a credit agreement to pay, with the ensuing interest costs that entails. As with those who pay by prepayment, those who use non-standard billing methods are also penalised with a poverty premium, as shown below:

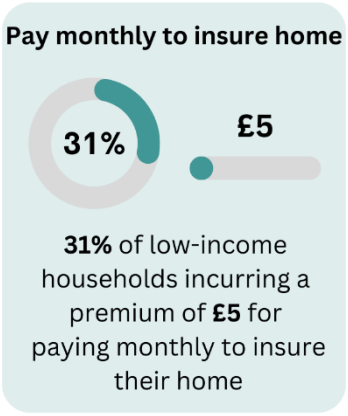
| Premium | Cost 2022* | Cost 2019 | Cost 2016 |
|---|---|---|---|
| B1 – Paying on receipt of bill for electricity | £103 | £54 | £38 |
| B2 – Paying on receipt of bill for gas | £103 | £54 | £38 |
| B1 + B2 – Paying on receipt of bill for dual fuel | £206 | £108 | £43 |
| B3 – Not switching to best pay on receipt of bill tariff | £0 | £143 | £43 |
| B4 – Paying monthly for car insurance | £103 | £161 | £81 |
| B5 – Paying monthly for home contents insurance | £5 | £10 | £9 |

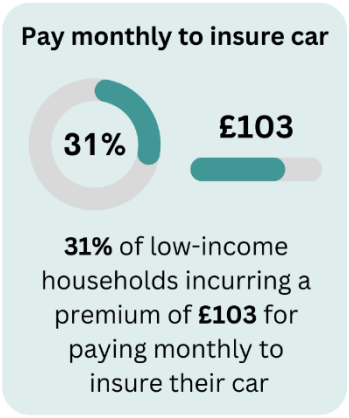
Notes: figures for paying on receipt of bill for energy collected in April 2023.

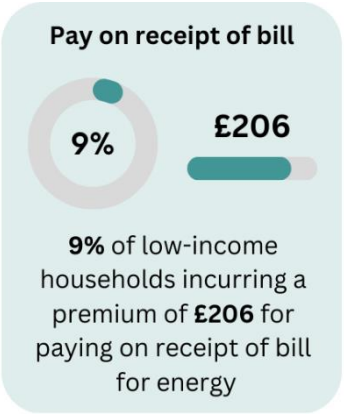
As can be seen, the premiums for paying on receipt of bill for electricity or gas have increased over the years, and are now considerably higher than those who pay by PPM, through higher tariffs. Currently, most insurance providers treat monthly payments as a credit agreement, and therefore charge interest to pay in this manner. The costs of this insurance poverty premium have

[66] Households within each age group were classified into thirds based on their income.

fluctuated more, with the 2022 costs somewhat lower than the equivalent for 2019. The premium for not switching to the best payment on receipt of bill tariff meanwhile no longer exists, as described in more detail in section C of this chapter.




**How many low-income households incur these premiums?**

There has been little change in the proportion of low-income households incurring any of the premiums between 2016 and 2022:

- B1: Pay on receipt of bill for electricity: 7% in 2016, 8% in 2022
- B2: Pay on receipt of bill for gas: 7% in 2016, 7% in 2022 [67]
- B3: On best pay on receipt of bill tariff: 1% in 2016, 3% in 2022
- B4: Pay monthly for home contents insurance: 32% in 2016, 31% in 2022
- B5: Pay monthly for car insurance: 31% in 2016, 33% in 2022

The poverty premiums associated with paying monthly for insurance are something of a double-edged sword; while any poverty premium may be considered as inherently bad for the consumer, it may be better for some consumers to have insurance which meets their needs, rather than them going uninsured. It isn't possible to quantify which option is best in the long run, but some will be unlucky enough to suffer to consequences of not having insurance when needed.[68] The Lack of insurance can also reflect a deeper inequality: secondary analysis of the 2016 poverty premium survey data found that lone parents, Black and minority ethnic respondents, those with disabilities, and young people were all significantly less likely to have motor, buildings and contents insurance than those not in those groups.[69] Similarly, research using data from the Family Resources Survey, also found that those with Pakistani, Chinese or 'Other Ethnicity' backgrounds were significantly less likely to hold contents insurance than those in the White British group, as were those who were housed in social-rented accommodation.[70] Ultimately, it would

[67] In 2022, 9% were paying on receipt of bill for *either* electricity or gas.
[68] Davies & Trend (2020) The poverty premium: A customer perspective, p.32
[69] Davies & Collings (2021) The inequality of poverty: exploring the link between the poverty premium and protected characteristics
[70] Adami (2022) Financial exclusion in the UK: evidence on ethnicity.

be desirable for *all* low-income households to have access to insurance which both meets their needs and does not result in any poverty premiums being incurred.

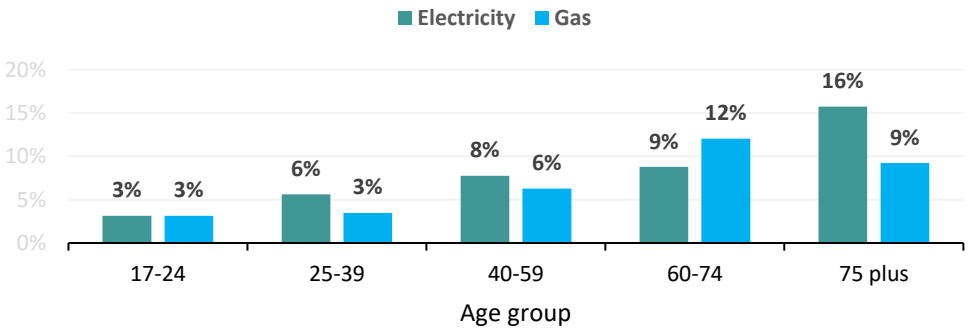
We find that 54% of low-income households have home contents insurance, leaving 46% uninsured. In 2016, 52% had contents insurance – but the increase of two percentage points is not statistically significant. Of those who have such insurance in 2022, over half (57%) are paying monthly rather than annually. Car insurance is similar, with 55% of those with car insurance paying for it monthly.[71]

### What type of households incur these premiums?

As in our previous research,[72] premiums related to paying on receipt of bill appear more common among older households, as Figure 2.4 illustrates. For example, 16% of those aged 75 plus and 13% of retired households incur this premium on their electricity bills, compared to 8% of all low-income households. For gas, it is the 60-74 age group who are more likely to pay on receipt of bill (12%, vs 9% of over 75s). The general age-related aspect of these premiums therefore mean we see slightly different patterns to some of the other premiums in relation to housing tenure: those who own their home outright are most likely to incur the premium for paying on receipt of bill (11% for electricity and 12% for gas).

**Figure 2.4, Those who incur premiums for paying on receipt of bill are typically older**

% incurring these premiums for electricity and gas, by age group



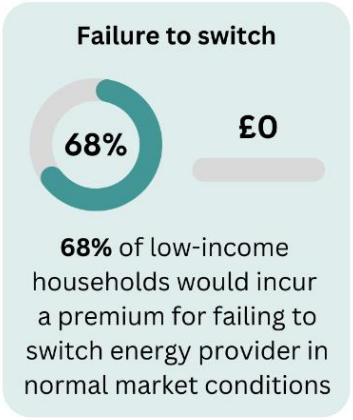

Notes: Base = 722 low-income households who provided the respondent's age. N = 63 for 17-24 group; 185 for 25-39 group; 244 for 40-59 group; 145 for 60-74 group and 85 for 75 plus group. Please note that estimates based on sample sizes below 100 are subject to higher sampling error and should therefore be treated with some caution.

[71] Nine-out-of-ten (92%) low-income households who had access to one or more vehicles said that they had car insurance. This is unlikely to mean that 8% of low-income households are driving uninsured – it more likely reflects cars owned by someone other than the respondent and some degree of measurement error. In the 2016 survey, 83% of car-owning households said that they had car insurance.

[72] Davies and Trend (2020) The poverty premium: a customer perspective

Premiums for paying monthly for insurance, however, appear to be mainly incurred by a younger group of households. If we focus only on those who have insurance in the first place, we find that 61% of working age households pay monthly for their car insurance and 62% pay monthly for their home insurance (compared to 32% and 48% of non-working age households respectively). Other characteristics that are more common among those who pay monthly for car insurance include: those who rent from a housing association (78%) or local authority (68%), or who rent privately (60%), who are from a 'non-White' ethnic background (70%), or who have children in the household (65%).

## C. Failure to switch energy provider




### What is the cost of this premium?

One key consequence of the increase in the tariff cap, as discussed above, has been the almost complete disappearance of cheaper tariffs that would enable customers to switch to reduce their gas and electricity costs. In previous studies, this was a substantial part of the overall poverty premium; in 2016, this premium was £317 and accounted for just under half of the total premium incurred by the average low-income household, as nearly three-quarters of households were incurring it. This meant that the average low-income household was losing £233 as a result of not switching energy provider. By 2019, this average had been reduced to a cost of £113, and Ofgem figures for 2019 suggest that more people than ever before were switching providers,[73] presumably for cheaper tariffs.

Moreover, the current energy market conditions have led to the complete eradication of the poverty premium for not switching. In September 2022, when the costings for this report were collated, there were no fixed rate tariffs that were lower than the Ofgem Tariff cap, by any payment method:

| Premium | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| C1 – Not switching to best direct debit tariff | £0 | £213 | £317 |
| A3 – Not switching to best prepayment meter tariff | £0 | £131 | £227 |
| B3 – Not switching to best pay on receipt of bill tariff | £0 | £143 | £43 |

Under more usual circumstances, the above table suggests that the tariff cap was having a positive impact on energy poverty premiums, as they reduced

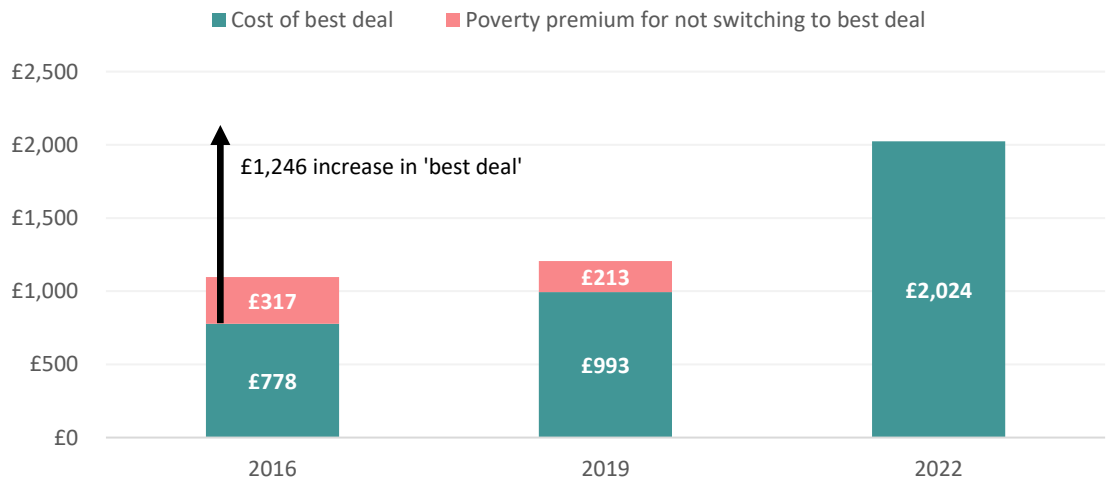
[73] Ofgem (2019) State of the energy market. 2019 report

across the aboard from 2016 to 2019. However, the recent energy crisis has perhaps laid bare the fundamental problem with a market economy in domestic energy provision. As has been widely publicised, and as seen in the below table, the actual cost to customers has risen dramatically. Those in poverty, even accounting for the support provided by the Energy Bills Support Scheme,[74] will be struggling far more than they were back in 2016, even though the poverty premium has disappeared or been much reduced. In fact, as Figure 2.5 demonstrates, the increase in the cost of the 'best' available energy deal is nearly four times the size of the original poverty premium for not switching to the best deal. While the implementation of the support scheme, along with governmental support for other cost of living rises may be temporarily providing some protection to lower income households, the real cost implications detailed below are clear.

| Cost | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| Best standard variable direct debit tariff | £2,024 | £1,206 | £1,096 |
| Best prepayment meter tariff | £2,071 | £1,264 | £1,166 |
| Best pay on receipt of bill tariff | £2,156 | £1,314 | £1,172 |
| Lowest online direct debit tariff | £2,024 | £993 | £778 |

**Figure 2.5, Even if the poverty premium reduces, energy costs are still much higher**

Relative size of the non-switching premium over time, compared to the overall increase in the cost of the 'best deal' available




Notes: Data collected by authors in 2016, 2019 and September 2022. 'Cost of best deal' plus the 'poverty premium' equals the standard variable direct debit dual fuel tariff for a household with typical usage. In 2022, no poverty premium for not switching exists.

[74] GOV.UK (N.D.) 'Help with your energy bills'

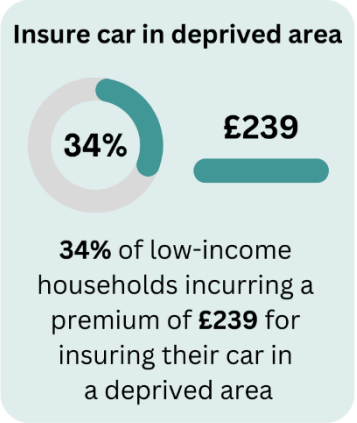
### How many low-income households incur this premium?

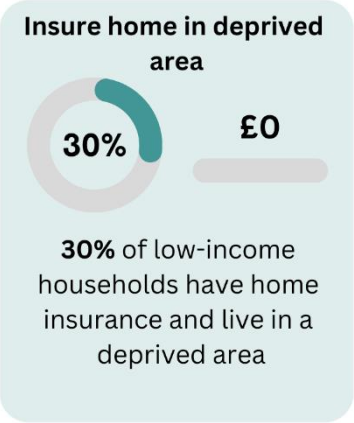
We find a reduction (albeit not a statistically significant one) in the proportion of low-income households who have not switched energy provider in the past two years, down from 73% in 2016 to 68% in 2022. If such a reduction does apply more broadly, it may reflect increasing digital uptake and the subsequent use of price comparison websites or may reflect increasing awareness among consumers of the benefits of switching – even if for most of 2022 the financial benefits of switching have become less obvious.

### What type of households incur this premium?

There are not many clear patterns in terms of the type of households who are less likely to have switched energy provider in the past two years. Just 22% of over 75s had switched, compared to 35% of those in the 25-39 age bracket – but this is not a statistically significant difference. There was some difference by social grade, however, with a statistically significant difference in switching between those in the AB (professional) grades (44% switched) and those in the D grade (24%).

## D. Area-based premiums for insurance




### What are the costs of these premiums?

For the 2022 study, we have refined the way that we measure the poverty premium associated with living in a deprived area (defined as the bottom two quintiles of deprivation) and how this affects people's insurance quotes. This refinement means in essence that fewer households from our survey are assigned these premiums, and we also obtain differing costs for those in the bottom quintile of deprivation to those in the second quintile, rather than assuming one cost for all low-income households.

The table below outlines the new costs of these premiums, but also gives a figure that uses the same methodology as in our previous studies. It highlights that while there was a small £5 premium in 2019 for home contents insurance in a deprived area, this appears to have vanished in 2022. For car insurance

meanwhile, if using comparable methodology, there has also been a decline in the poverty premium – from £298 in 2019 to £239 in 2022.

| Premium | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| D1 – New methodology – Home contents insurance: | | | |
| … in most deprived quintile of areas | £0 | Not comparable | |
| … in second most deprived quintile of areas | £0 | Not comparable | |
| D1 – Previous methodology – home contents insurance in a deprived area | £0 | £5 | £14 |
| D2 – New methodology – Car insurance: | | | |
| …in most deprived quintile of areas | £233 | Not comparable | |
| …in second most deprived quintile of areas | £0 | Not comparable | |
| D2 – Previous methodology – car insurance in a deprived area | £239 | £298 | £74 |

**How many low-income households incur these premiums?**

On this new measure, we find that 34% of low-income households pay an additional premium on their car insurance because they live in a deprived area. For home contents insurance, this figure is 30%.

If looking only at those low-income households who have contents insurance, we find 55% live in a deprived area. For car insurance, this is 57%.

To compare the proportions incurring these premiums between 2016 and 2022, we can define these premiums in the same way as was done in 2016. This shows a slight, significant increase in the proportion incurring each premium: from 52% to 60% for car insurance and 52% to 54% for home contents insurance. As previously mentioned, such an increase is not necessarily problematic given that it may be positive if a higher proportion of households are insured who might not previously have had cover.

**What type of households incur these premiums?**

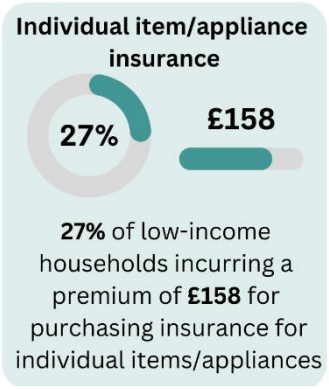
The likelihood of experiencing either of these premiums is driven both by one's likelihood of a) having insurance in the first place, and b) living in a more deprived area. Some of the household characteristics that drive the former tend to be the opposite of those that drive the latter. For example, being on a higher income is associated with a greater likelihood of having insurance but a lower likelihood of living in a deprived area.

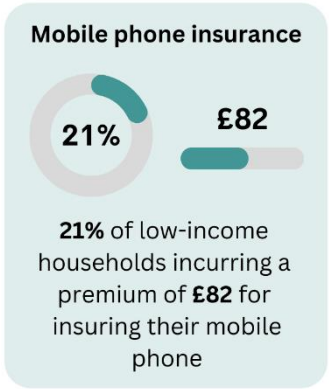
Similarly, those of White ethnicity are more likely to have insurance but less likely to live in a deprived area than those from non-White ethnic backgrounds. We find that 59% of low-income households headed by someone of White ethnicity have home contents insurance (compared to 25% of non-White people); but we also find that, of households with insurance, 54% of White people live in a deprived area compared to 80% of non-White people.

Combining these two sets of figures means that overall 32% of those of White ethnicity incur the premium (by both having contents insurance and living in a deprived area), compared to 20% of those from non-White ethnicity.

Households with children are also found to be particularly likely to incur these premiums, especially for car insurance: 46% of households with children incur the premium, compared to 27% of households without children. This is the result of such families being more likely to have cars and therefore car insurance (72% are insured, compared to 53% of households without children) and, of those with insurance, also being more likely to live in a deprived area (63% compared with 51%).

## E. Insurance for individual items




### What are the costs of these premiums?

Over the last six years, there has been fluctuation in the costs of insuring individual items, but overall increasing. Since we last investigated the market in 2019, mobile phone insurance has been aimed primarily at the higher end of the mobile phone market, and most insurance companies wouldn't cover the entry level phone that would have been used as an assumed phone owned in our methodology. The continued use of this individual insurance, sometimes in conjunction with contents insurance (18% of low-income households hold both home contents and individual item insurance), highlights how vital these items are to low-income households that they will pay this premium to ensure that they can replace items when needed (Davies and Trend 2020 p.32).

| Premium | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| E1 – Insurance for individual appliances | £158 | £176 | £132 |
| E2 – Insurance for mobile phone | £82 | £81 | £60 |

### How many low-income households incur these premiums?

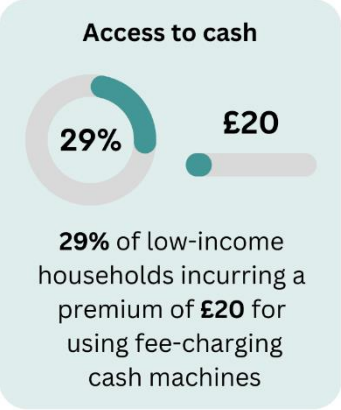
The premium for having household appliance insurance is one of the premiums to have seen a substantial increase in occurrence since 2016. Previously, just 13% reported having insurance for specific household items like kitchen appliances, but in 2022 this has risen to 27%.

The propensity to have mobile phone insurance also increased somewhat, with the proportion of low-income households insured rising from 16% in 2016 to 21% in 2022.

**What type of households incur these premiums?**

Mortgagors were more likely to have purchased household appliance insurance (40% had done so), compared to those renting from housing associations (36%), local authorities (30%) or privately (21%) and those who own their house outright (24%). Those in full-time employment were also more likely than other groups to have purchased such insurance (33%, compared with 25% of retired households and 21% of those not working).

Those who had purchased mobile phone insurance were typically of working age and had a higher or average income for their age. The 25-39 age group were most likely to be insured (30% had mobile insurance), followed by the 40-59 age group (25%) and those aged 17-24 (23%). This compares with 11% of those aged 60-74 and 5% of those 75 or older. Those on higher or mid-level incomes for their age group had mobile insurance at nearly twice the rate of those on lower incomes (30% compared with 14%).




## F. Access to money

**What are the costs of these premiums?**

Concerns over continued free access to cash have become increasingly prominent in recent years, both following changes to the interchange fee structure paid by banks to ATM deployers and in the aftermath of the coronavirus pandemic, when many businesses encouraged customers to pay using contactless methods wherever possible. While the number of fee-charging ATMs may have increased, there has been little change in the amount that consumers can expect to pay when withdrawing cash from a pay-to-use machine. The average withdrawal cost in 2019 and 2016 was £1.69 and in 2022 this is £1.68. If we assume each household pays to access cash once per month, then this would cost approximately £20 per year. If we adjust this for the usage reported by those who took part in the survey – we actually find slightly higher usage on average – leading to an average premium of £25 per year for those who incur it.

| Premium | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| F1 – Use of fee-charging ATM (adjusted for usage) | £25 | Not comparable | |
| F1 – Use of fee-charging ATM | £20 | £20* | £20* |
| F2 – Use of prepaid card | £36 | £33 | £25 |

* These figures for 2016 and 2019 have been retrospectively adjusted to match the same assumptions as used in 2022.

Meanwhile, the premium for using a prepaid card – which mainly consists of card application fees, monthly management fees and cash withdrawal fees – has risen slightly from £33 in 2019 to £36 in 2022.

### How many low-income households incur these premiums?

A marginally – but not statistically significantly – higher proportion of low-income households reported having used a pay-to-use cash machine in the last 12 months in 2022 (29%) than in 2016 (27%). This is interesting given that cash withdrawal volumes in 2022 are substantially down on where they were pre-pandemic in 2019,[75] but may partially reflect some of the shift away from free-to-use ATMs to fee-charging ones in recent years.[76] Looking in more detail at level of usage, we find that 14% of households had used a fee-charging machine one to three times in the last year, 8% had done so quarterly or monthly and 8% had done so twice a month or weekly.

Meanwhile the proportion of households incurring a premium for using prepaid cards rose marginally from 3% to 4% between 2016 and 2022. This is also not a statistically significant increase.

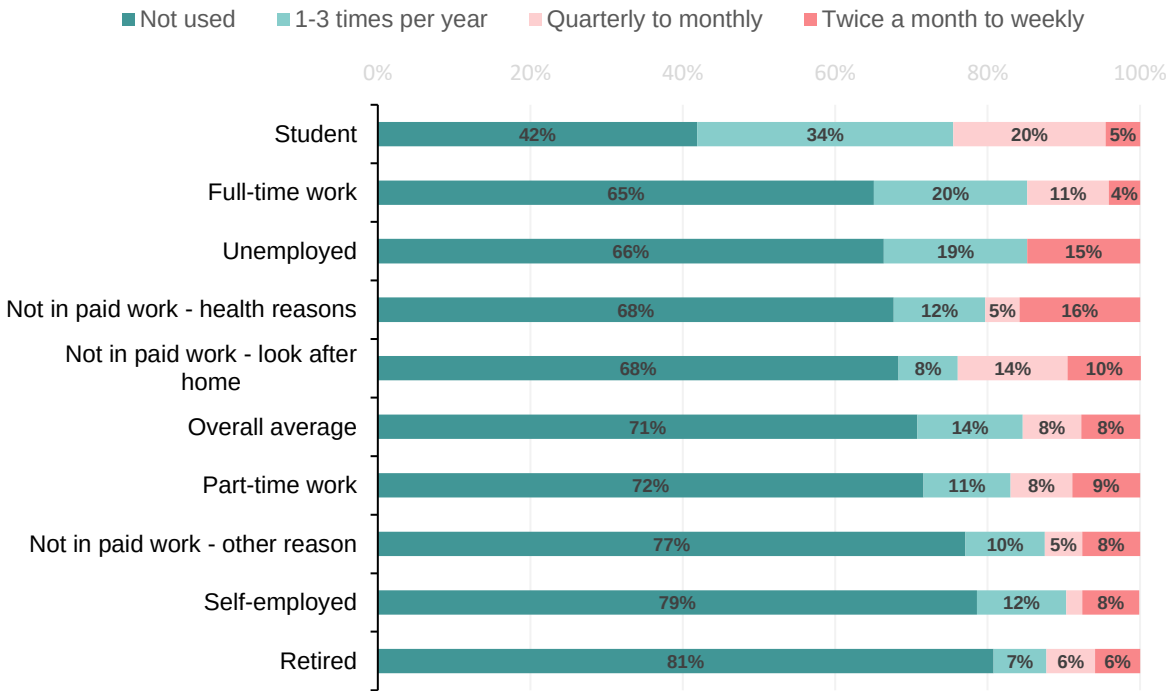
### What type of households incur these premiums?

The premium paid for using fee-charging cash machines exhibits some interesting socio-economic trends. In terms of respondents' economic activity, as shown in Figure 2.5, we find that students were most likely to report having used a fee-charging cash point in the past 12 months (with 58% having done so); while retired households were least likely to have done so (19%). However**, if we look at those with the highest volume of use, we find that it is those not in paid work for health reasons who are most likely to have used fee-charging ATMs regularly;** 16% had used one at least two times per month in the past 12 months. Similarly, this figure is 15% for households headed by someone unemployed. Collectively, these findings point towards the complex reasons why someone might use a fee-charging ATM, though it should be noted that the analysis considers only low-income households and that there may be different socio-demographic patterns if higher-income households were also included.

[75] LINK (2022) 'Statistics and trends'.
[76] Tischer *et al* (2019) Mapping the availability of cash – a case study of Bristol's financial infrastructure

**Figure 2.5, Students were most likely to have used a fee-charging ATM at least once but those out of work for health reasons were most likely to have regularly used one**

% using fee-charging ATMs, by economic activity




Notes: Base = 741 for overall average. See Appendix for bases for individual groups. Largest N = 229 for full-time work. Smallest N = 29 for students. Please note that estimates based on sample sizes below 100 are subject to higher sampling error and should therefore be treated with some caution.

We also note that ethnic background is associated with differing usage of fee-charging cash points. While 73% of those from a White ethnic background had not used a fee-charging machine, this falls to 57% of those from non-White ethnic groups. Around one-in-eight (12%) people from a non-White ethnic background had used such a machine at least twice a month, compared to just 7% of people of White ethnicity. Respondent age appears to have no significant association with use of fee-charging cash points, despite evidence that older consumers are generally more likely to prefer cash.[77,78]

The premium for using a prepaid card exhibits virtually no significant patterns by socio-demographic characteristics, except that those aged 40-59 were significantly more likely to have used a prepaid card than those in the 60-74 age group (6.5% compared with less than 1%).

[77] PSR (2019) Access to cash research with consumers and small businesses

[78] It should be noted that the PSR describe the relationship between age and cash preference as 'not a straightforward trend' given that they find that a greater proportion of those aged 18-24 prefer cash (23%) than in either the 25-34 or 35-44 age groups (14% and 16% respectively). Nevertheless, over half (53%) of the over 75 age group surveyed said they prefer cash.

## G. Higher-cost credit


### What are the costs of these premiums?

The higher cost credit market has changed markedly since 2016, and even since 2019, and this has made comparisons with 2016 and 2019 difficult. There have been key regulations implemented, as well as penalties imposed by the FCA, the financial regulator, that has resulted in the landscape of high-cost credit providers and products shifting significantly over the last few years.

Firstly, around the time of the 2016 report, a price cap was introduced which limited the total cost of high-cost short-term credit (HCSTC) loan to 100% of the total loan value, as well as capping the daily interest charge (at 0.8%) and limiting default charges at £15 (FCA 2014).[79] Further regulations introduced a price cap on rent-to-own[80] which also impacted on home collected credit.[81,82]

As a consequence of these regulations and implementation of fairer practices, large fines[83], and general market conditions, major payday loan providers left the market; Wonga, for example, went into administration in August 2018. By 2019, one-month payday loans were no longer available (Davies and Trend 2020). This was followed by Brighthouse in March 2020,[84] and Provident closed its home collected credit business in August 2021. As such, the comparisons provided below are not always directly comparable, and are based on the nearest equivalent at the time of costing:

As such, these changes to the costs of different forms of high-cost credit reflect these market changes: the cost of mail order catalogues, for example, has dropped over time – reflecting a shift from some providers to Buy Now Pay Later (BNPL) payment options rather than traditional credit. BNPL is a new addition to our survey for 2022 and is found to be relatively low-cost, based on an assumption that just over a quarter of users are charged late fees.[85] The fluctuation in the cost of buying rent-to-own goods may signify the contracted market of 2022. Home collected credit, where still available, has continually been the most expensive way of borrowing, whereas short term loans (over 3 months) have remained steady.

[79] FCA (2014) PS 14/16 Detailed rules for the price cap on high-cost short-term credit Including feedback on CP14/10 and final rules
[80] FCA (2019) PS 19/6: Rent-to-own price cap – feedback on CP18/35 and final rules
[81] FCA (2018) High-cost credit review. Chapter 2 – Home-collected credit
[82] A summary of the FCAs key publications on high-cost credit can be found here.
[83] FCA (2017) Rent-to-own provider BrightHouse to provide over £14.8 million in redress to around 249,000 customers
[84] Which? (2020) BrightHouse in administration: what does it mean for debts and compensation claims?
[85] Citizens Advice (N.D.) Buy now, pay later: what happens if you can't pay later?

| Premium | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| G1 – Rent-to-own | £303 | £182 | £315 |
| G2 – Payday loan / High-Cost Short-Term credit | £245* | £237 | £120 |
| G3 – Buy Now Pay Later (BNPL) | £7 | N/A | N/A |
| G4 – Home-collected loan | £610 | £644 | £540 |
| G5 – Pawnbroking | £143* | £152 | £50 |
| G6 – Subprime personal loan | £118** | £557 | £520 |
| G7 – Subprime credit card | £203 | £207 | £194 |
| G8 – Mail order catalogue | £22 | £60 | £178 |
| G9 – Christmas hamper | £105 | £47 | £47 |
| *Mean for those incurring any HCC (excluding BNPL)* | £201 | N/A | N/A |

* Different assumptions have been used in collecting the 2022 costs. If we use the same assumptions as in 2019, the costs are as follows: G2 = £161, G5 = £155

** While the same assumptions have been used as before, the profile of lenders available has changed significantly, bringing costs down. If quotes are obtained from the same lenders as before, however, the cost is much higher: £590.

### How many low-income households incur these premiums?

A quarter of low-income households (25%) were found to have used one or more of the forms of credit that we asked about, but this falls to 16% if we exclude BNPL. This matches the figure of 16% that we found in 2016 (when BNPL was not asked about at all due to its low market penetration at that stage).

Overall, including BNPL, the majority of low-income households who used one or more of the credit products asked about had just one form of credit (19% of all low-income households), while 4% had two products and 2% had three or more.

Taking each form of credit in turn, BNPL is found to be the most common form of credit used that we asked about, with 14% of low-income households using it. This is followed by subprime credit cards which were used by 7% and had increased from 4% in 2016. Most other forms of higher cost credit had become less common since 2016 or were already at quite low levels: mail order (5%, down from 6%), Christmas hamper schemes (2%, down from 3%), subprime personal loans (1.8%, previously 1%), rent-to-own (1.7%, previously 2%), home collected (or doorstep) loans (1.0%, down from 4%), high-cost short-term credit (typically called payday loans) (0.9%, down from 4%), and pawnbroking (0.4%, previously under 0.5%). The decline of some of these forms of high-cost credit likely reflects the increasing regulation of these products in the 2010s, discussed above.

**What type of households incur these premiums?**

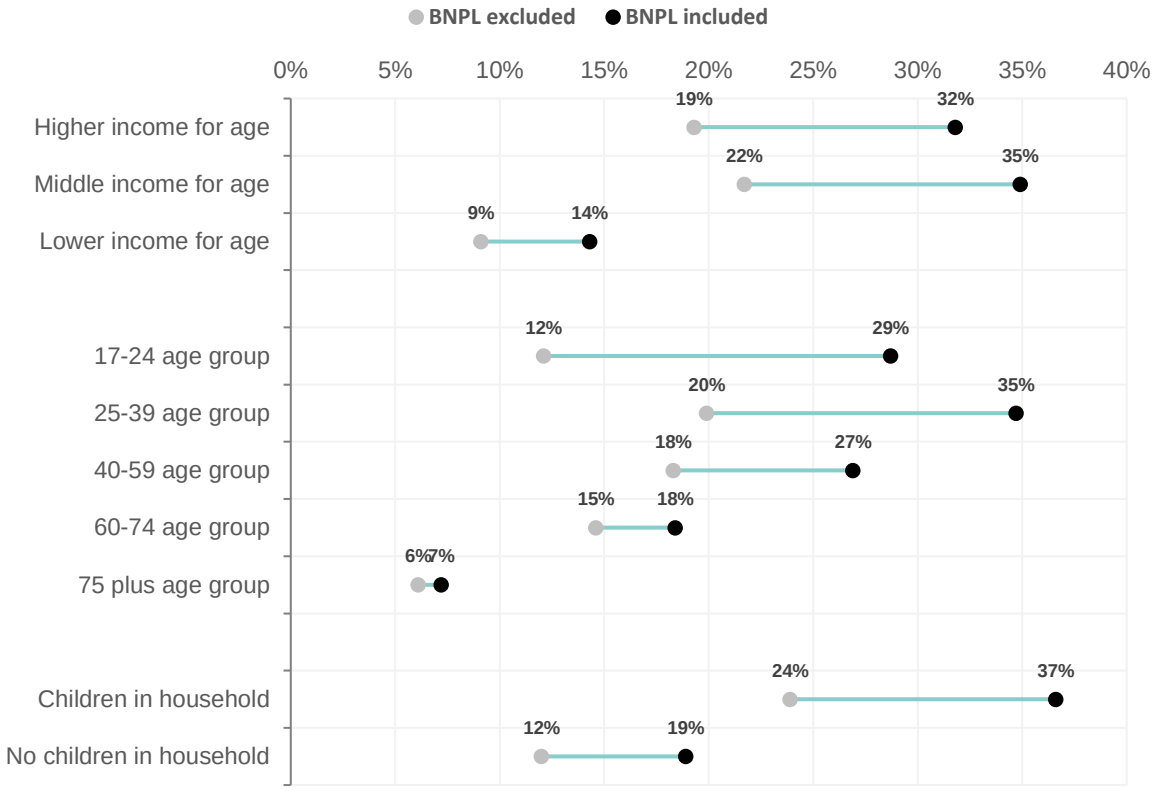
As shown in Figure 2.6, those on the very lowest incomes appear less likely to incur any of these premiums, either because of difficulties obtaining credit when on a very low income, or through credit aversion. We therefore see that while just 14% of the bottom third of those on low incomes (for their age group) have used one or more of the credit products asked about, this rises to 35% of the middle third and 32% of the top third. This drops if Buy Now Pay Later is excluded: to 9% for the bottom third, 22% for the middle third and 19% for the top third.

Age is also again a key factor. The 25-39 age group were most likely to have one or more of the credit products (35%), followed by those aged 17-24 (29%) and those aged 40-59 (27%). This contrasts with just 18% of the 60-74 age group and 7% of the 75 plus group. This also means that we see much higher uptake of credit products among households with children (37%) than those without (19%).

One noteworthy finding is that the 17-24 age group sees a very big fall in use of credit once BNPL is excluded: the rate using one or more credit products drops from 29% to 12%, while the equivalent drop for the 40-59 age group is from 27% to 18%. This suggests that **BNPL is the main source of credit for younger adults (among those types of credit product asked about).** Indeed, we find that 24% of those aged 17-24 had used BNPL in the past 12 months, around four times greater than the proportion using the next most common type of credit: subprime credit cards (6%).

## Figure 2.6, Credit-users more likely to have slightly higher incomes, be younger and have kids

% using one or more higher cost credit product, with BNPL included and excluded



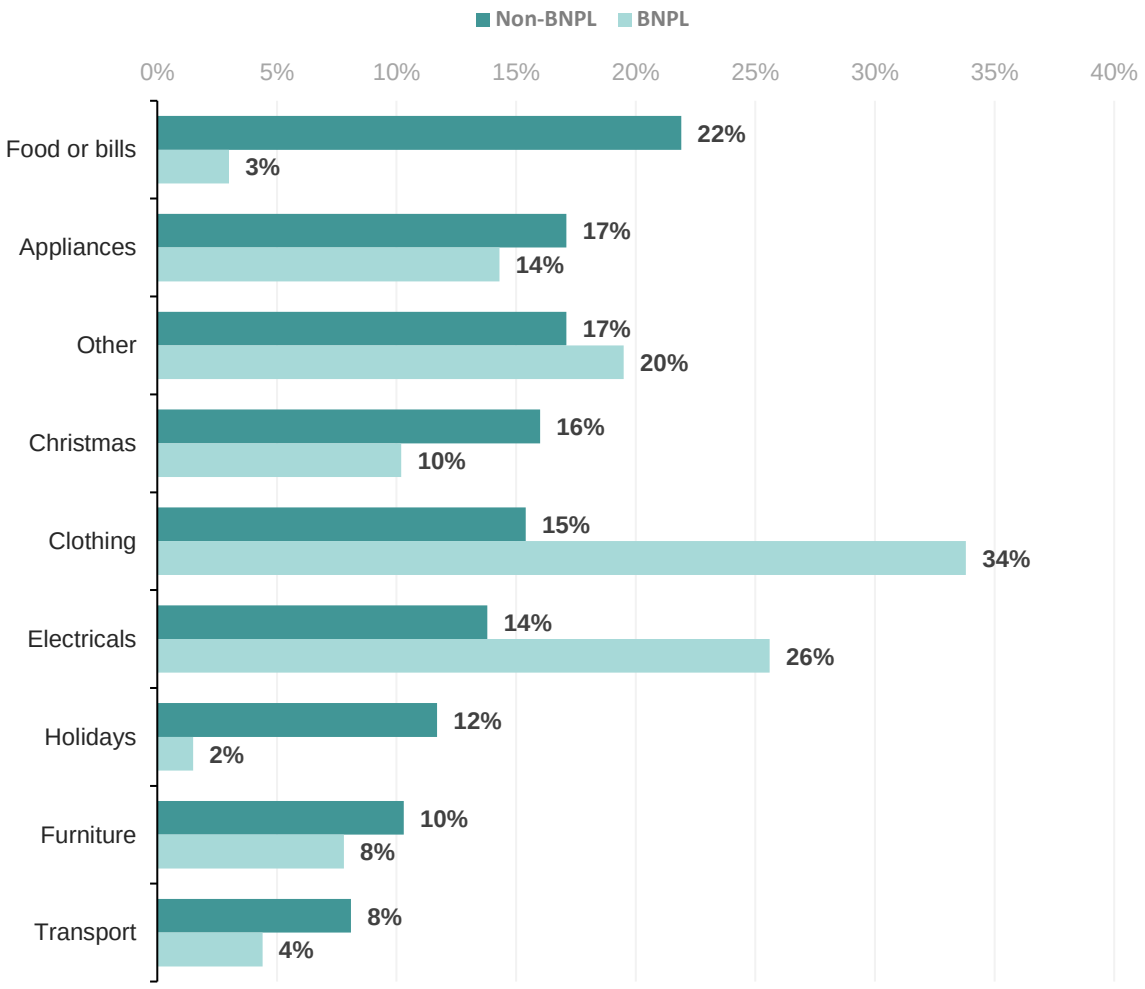

Notes: Bases range from 66 (17-24 age group) to 531 (no children in household). Please note that estimates based on sample sizes below 100 are subject to higher sampling error and should therefore be treated with some caution.

### Why are households using higher-cost credit?

We asked low-income households what they were buying with the higher-cost credit that they were using. As shown in Figure 2.7, there was no single dominant reason for using credit; however, day-to-day expenditure on food and bills was the most common reason given for using the forms of higher-cost credit we asked about (if excluding BNPL). If only looking at BNPL, clothing was the most common reason (mentioned by around a third of BNPL users), followed by purchasing electricals (such as TVs, small electricals or mobile phones) (mentioned by a quarter of BNPL users).

**Figure 2.7, What do low-income households purchase with higher cost forms of credit?**

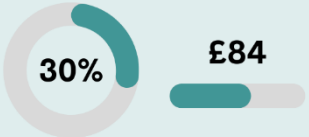
% of those using BNPL vs other higher-cost forms of credit




## H. Unable to access affordable food

### What is the cost of this premium?

**Food shopping**




**30%** of low-income households incurring a premium of **£84** for shopping at smaller food stores

This premium measures the amount of food shopping that low-income households do at smaller, more expensive outlets, rather than larger supermarkets or discount stores. The methodology for calculating this premium is entirely new for 2022, as it is based on a new survey question. The costing reflects previous research by Which? showing that the cost of food shopping at a smaller store is typically 9% higher than shopping at a

large supermarket[86] and is based on ONS data showing the amount that lower-income households typically spend on food each week and how much shopping the typical household does at smaller convenience stores. Given that the average household does 17% of their shopping at such outlets, the poverty premium gives the additional cost of the amount of shopping that low-income households do at such stores, compared to the average household. This gives lower figures than a somewhat comparable figure produced in 2016 when survey respondents were asked about difficulty accessing good value shops.

| Premium | Cost 2022 | Cost 2019 | Cost 2016 |
|---|---|---|---|
| H1 – Unable to access affordable food… | | | £266 |
| …if 25% of food shopping is at small stores | £24 | N/A | |
| …if 50% of food shopping is at small stores | £101 | N/A | |
| …if 75% or more of food shopping is at small stores | £177 | N/A | |
| *Mean for those incurring premium* | £84 | N/A | N/A |

It should be noted that these figures reflect the difference in shopping costs between large and small supermarkets of the same brand – and therefore do not reflect differences in cost at other convenience store chains and independents. One study of Greenwich in 2018, for example, found that residents in the 14 most deprived neighbourhoods of the area were not within 400m (an average walking distance) of a large supermarket and instead relied on 18 smaller retailers.[87] Comparing prices, the researchers found that a basket of healthy food costing around £12.50 at large supermarkets would cost between £18 and £35 at these small retailers (an increase of between 47-176%).

**How many low-income households incur this premium?**

We find that 30% of low-income households incur a poverty premium for doing at least a quarter of their food shopping at smaller, more expensive outlets. Around one-in-seven (14%) do a quarter of their shopping at these outlets, 8% do half of their shopping there and a further 8% do at least three-quarters of their shopping at such outlets.

As mentioned above, we have no direct comparison for 2016, though we had previously found that 14% of low-income households found it either fairly or very difficult to get to good value food shops.

[86] Which? (2021) The cost of convenience: how much extra will you pay at Sainsbury's Local and Tesco Express?
[87] May *et al* (2018) Do food banks help? Food insecurity in the UK

**What type of households incur this premium?**

As in 2016, there is evidence **that households without a car were most likely to find it difficult to access cheaper supermarkets**. While just 6% of low-income households with a vehicle did three-quarters (or more) of their food shopping at small outlets, this rises to 13% among households without a car.

# 3 PATTERNS OF EXPOSURE TO THE POVERTY PREMIUM

**This chapter describes six different segments of low-income households, based on their exposure to different types of poverty premium.**

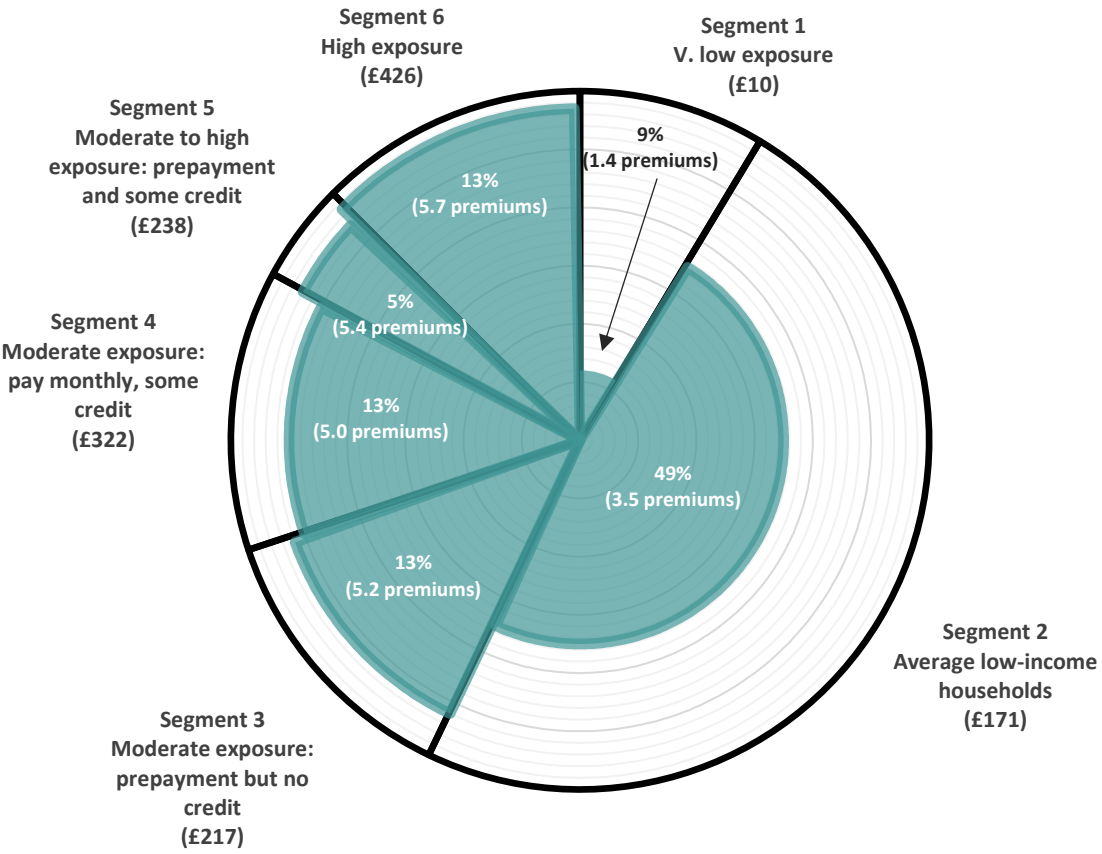
## 3.1 Low-income households fall into six segments of exposure to poverty premiums

As previously described, the average low-income household incurs around four different types of poverty premium (out of the 25 different types that we measure). There is variation, however, in the extent to which different households are exposed to different premiums. For this reason, we used a technique called cluster analysis to define six different groups of low-income households, based on the combination of components of the poverty premium that they incur. For more information on the methodology used to segment households, please see Appendix A.

Figure 2.7 outlines the six segments that we identify, giving the proportion of low-income households that fall into each segment and a brief description of the type of poverty premiums that each segment typically incurs. Figure 2.8 meanwhile shows what proportion of households within each segment experience at least one component of the poverty premium of each type.

## Figure 2.7, Six segments based on level of exposure to different poverty premiums

% of all low-income households in each segment indicated by size of angle, and mean no. of premiums incurred indicated by distance from centre




Notes: Base = 741 low-income households. Figures may not add up to 100% due to rounding.

A considerable proportion of low-income households have relatively low exposure to the poverty premium. Segment 1 – which accounts for 9% of low-income households – face practically no components of the poverty premium, except for the (currently zero-cost) premium relating to not switching to the best energy provider.

Segment 2 is larger, containing just under half of low-income households, and can be considered 'average' in many ways. This segment also has relatively low exposure, though – as Figure 2.8 shows – they still face an average of 3.5 premiums per household.

The remaining segments range from moderate to high exposure to different premiums, all incurring between 5 and 6 premiums on average. These segments vary more in terms of the type of premium that they experience: segment 3 is driven by prepayment and non-switching premiums; segment 4 is more varied with issues such as non-standard billing methods and use of higher-cost credit more common; segment 5 is mainly affected by prepayment and poor access to food; and segment 6 is fairly high across the board.

## Figure 2.8, Each segment has differing levels of exposure to different premiums

% of households in each segment who incur at least one premium of each type. Colour coding indicates over-representation and under-representation of premiums.

| | *Segment number and exposure level…* | | | | | | |
|---|---|---|---|---|---|---|---|
| **Type of Premium** | **1 V. Low** | **2 Average** | **3 Mod.** | **4 Mod.** | **5 Mod. to High** | **6 High** | **Total** |
| A - Prepayment | 4% | 7% | 100% | 16% | 100% | 20% | 26% |
| B - Non-standard billing | 0% | 56% | 47% | 71% | 39% | 70% | 53% |
| C - Non-switching | 100% | 61% | 99% | 75% | 0% | 58% | 68% |
| D - Area-based | 25% | 43% | 44% | 48% | 34% | 49% | 43% |
| E - Insuring individual items | 0% | 41% | 35% | 40% | 38% | 46% | 37% |
| F - Access to money | 0% | 34% | 28% | 26% | 31% | 57% | 32% |
| G - Higher-cost credit | 0% | 15% | 4% | 70% | 23% | 58% | 25% |
| H - Access to food | 0% | 36% | 30% | 26% | 46% | 24% | 30% |
| Mean no. of premiums | 1.4 | 3.5 | 5.2 | 5.0 | 5.4 | 5.7 | 4.1 |

Notes: Base = 741 low-income households. Figures may not add up to 100% due to rounding. Colour coding indicates whether value is higher (red) or lower (blue) than the average for that row, i.e. how the value compares to other segments.

Interestingly, while segment 4 has a higher proportion of households using *any* higher-cost credit, segment 6 was more likely to have households using *multiple* forms of higher-cost credit.

Figure 2.9 meanwhile highlights how different socio-demographic groups may be over- or under-represented within each segment. For example, we see that 18% of those who own their property outright fall into the first segment (very low exposure), despite this segment accounting for just 9% of all low-income households. Below we give overviews of the key characteristics of each segment in turn.

## Figure 2.9, Certain demographics more likely to be in certain segments

% of households in each socio-demographic group who are in each segment. All percentages are row percentages, i.e. all rows add up to 100%.

Colour coding shows over-representation or under-representation of a demographic group within each segment.

| | | *Segment number and exposure level…* | | | | | |
|---|---|---|---|---|---|---|---|
| | | **1 V. Low** | **2 Average** | **3 Mod.** | **4. Mod.** | **5 Mod. to High** | **6 High** |
| | % of households in cluster | 9% | 49% | 13% | 13% | 5% | 13% |
| Tenure | Owned with mortgage | 4% | 55% | 6% | 19% | 3% | 13% |
| | Owned outright | 18% | 54% | 3% | 12% | 1% | 12% |
| | Rented from local authority | 4% | 37% | 27% | 10% | 3% | 18% |
| | Private rented | 8% | 42% | 19% | 16% | 2% | 13% |
| | Rented from housing assoc. | 9% | 39% | 15% | 16% | 8% | 14% |
| | Other | 0% | 68% | 0% | 19% | 6% | 8% |
| Age group | 17-24 | 17% | 46% | 10% | 5% | 11% | 12% |
| | 25-39 | 4% | 48% | 19% | 11% | 4% | 13% |
| | 40-59 | 7% | 46% | 13% | 12% | 5% | 17% |
| | 60-74 | 9% | 54% | 9% | 17% | 3% | 8% |
| | 75 plus | 18% | 48% | 4% | 17% | 3% | 10% |
| Working age? | Not working age (66+) | 14% | 49% | 4% | 21% | 2% | 9% |
| | Working age (<66) | 7% | 48% | 15% | 11% | 5% | 14% |
| Any children (<18) in household | No children | 10% | 49% | 12% | 12% | 5% | 11% |
| | One or more children | 5% | 47% | 14% | 14% | 4% | 15% |
| Has access to vehicle? | No vehicle | 14% | 36% | 21% | 14% | 5% | 10% |
| | Has access to a vehicle | 6% | 52% | 9% | 15% | 3% | 15% |
| Nation / Region | England (ex. London) | 9% | 48% | 12% | 15% | 3% | 13% |
| | London | 9% | 52% | 13% | 8% | 8% | 10% |
| | Northern Ireland | 2% | 40% | 25% | 4% | 25% | 5% |
| | Scotland | 8% | 42% | 18% | 10% | 5% | 17% |
| | Wales | 12% | 62% | 3% | 9% | 2% | 13% |
| Ethnicity | White | 8% | 49% | 13% | 13% | 5% | 13% |
| | Non-White | 15% | 47% | 12% | 11% | 4% | 10% |
| Household income | Under £7,500 | 10% | 41% | 29% | 7% | 3% | 10% |
| | £7,500 to £11,499 | 14% | 48% | 10% | 15% | 5% | 9% |
| | £11,500 to £15,499 | 5% | 46% | 20% | 10% | 6% | 14% |
| | £15,500 to £24,999 | 6% | 42% | 15% | 13% | 8% | 16% |
| | £25,000 to £29,999 | 3% | 58% | 6% | 16% | 6% | 11% |
| | £30,000 to £39,999 | 4% | 57% | 10% | 23% | 0% | 6% |
| | £40,000 plus | 4% | 60% | 7% | 14% | 6% | 9% |
| | Low income for age | 10% | 44% | 19% | 11% | 5% | 12% |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Income for age | Mid-income for age | 5% | 44% | 15% | 14% | 8% | 14% |
| | High income for age | 5% | 61% | 6% | 16% | 3% | 8% |
| Social grade | AB | 8% | 63% | 4% | 11% | 5% | 9% |
| | C1 | 8% | 54% | 8% | 18% | 3% | 8% |
| | C2 | 6% | 46% | 13% | 16% | 5% | 15% |
| | D | 11% | 41% | 14% | 10% | 2% | 21% |
| | E | 9% | 44% | 19% | 10% | 6% | 11% |
| Work status of respondent | Full-time work | 8% | 50% | 12% | 14% | 5% | 11% |
| | Part-time work | 5% | 48% | 4% | 14% | 4% | 24% |
| | Self-employed | 15% | 50% | 9% | 8% | 4% | 14% |
| | Student | 6% | 59% | 20% | 7% | 5% | 3% |
| | Unemployed | 8% | 42% | 33% | 2% | 7% | 8% |
| | Retired | 14% | 50% | 5% | 18% | 3% | 9% |
| | Not in paid work - other reason | 7% | 46% | 19% | 11% | 1% | 16% |
| | Not in paid work - health | 5% | 40% | 21% | 13% | 9% | 12% |
| | Not in paid work - home | 3% | 54% | 21% | 10% | 2% | 10% |
| Qualifications for age | Low quals for age | 8% | 43% | 17% | 13% | 5% | 13% |
| | Average quals for age | 6% | 49% | 12% | 14% | 6% | 13% |
| | High quals for age | 13% | 60% | 3% | 12% | 2% | 10% |

Notes: Base = 741 low-income households. Figures may not add up to 100% due to rounding. Colour coding indicates whether value is higher (red) or lower (blue) than the average for that column, i.e. how the value compares to other socio-demographic groups within that cluster.

## 3.2 A detailed look at each segment in turn

**Segment 1 – Very low exposure, only non-switching premium (9% of low-income households)**

**Average number of poverty premiums exposed to:** **1.4**

**Average poverty premium cost faced:** **£10**

**Most common premiums experienced:**

- **Non-switching premium (100%)**

**Over-represented socio-demographic groups:**

- **Own home outright**
- **Aged 17-24 or aged 75 plus**
- **Non-White**

**Under-represented socio-demographic groups:**

- **25-39 age group**
- **Households with children**

The first segment accounts for 9% of low-income households and is a group that at present has very low – if not practically non-existent – exposure to the

poverty premium. The main type of premium that they incur is that for not switching their energy supplier; however, as discussed, in 2022 this premium is not associated with any cost. As a small proportion of this segment may incur other types of premium, the average poverty premium faced is just £10 per household.

This segment is most notable for its over-representation of households who own their house outright, with such homeowners appearing at double the expected rate: 18% of outright homeowners are in this segment, despite the segment accounting for just 9% of low-income households. Looked at another way, nearly two-in-five (38%) of this segment own their home without a mortgage. Given this home-ownership trend it is also unsurprising therefore that we see an over-representation of those aged 75 or over (18% of whom fall into this segment, and 23% of the segment being over 75). It is perhaps more surprising to see an over-representation of respondents aged 17-24 or who are from a non-White ethnic background; though the younger age group may be the result of simply not yet having enough time in their own household to have switched energy provider.[88]

**Segment 2 – Average exposure**

**(49% of low-income households)**

**Average number of poverty premiums exposed to:** **3.5**

**Average poverty premium cost faced:** **£171**

**Most common premiums experienced:**

- **All premiums, except for prepayment and higher-cost credit**

**Over-represented socio-demographic groups:**

- **Higher incomes (relatively speaking)**
- **Higher social grade**
- **Higher qualifications for age group**

**Under-represented socio-demographic groups:**

- **Rented: social or private**
- **Households without vehicle access**

The second segment is the largest of our six segments (containing 49% of low-income households) and undoubtedly the one that best reflects the average experience of a low-income household in the UK. Each household is typically exposed to 3.5 types of poverty premium and these range quite a lot

[88] It is also possible that some of this group may be young adults living at home with their parents/family. While we excluded individuals who did not have responsibility for household finances, it may be the case that some young adults living with family contribute rent or have responsibility for one or more household bills and therefore would have been eligible for participation in the survey.

in nature. Rather what defines this group is the absence of certain types of premiums, namely prepayment meters and the use of higher-cost credit: just 7% use a prepayment meter and, in our sample, none use any forms of higher-cost credit other than BNPL (with BNPL only being used by 15% anyway). The average cost of the poverty premium faced by this segment therefore is £171.

This group appears to have an over-representation of those at the higher end of the income spectrum (while bearing in mind that all households in the survey are low-income), with over half of those earning over £25,000 being in this group. Nevertheless it is important to remember that – despite this over-representation – the majority (61%) still have a household income of less than £25,000.

In tandem with the over-representation of higher income groups, we also see over-representation of those from higher social grades and with higher qualifications (for their age group). Students and 'other tenures' (likely to be student accommodation) are also over-represented.

**Segment 3 – Moderate exposure, prepayment**

**(13% of low-income households)**

**Average number of poverty premiums exposed to:** **5.2**

**Average poverty premium cost faced:** **£217**

**Over-represented socio-demographic groups:**

- **Local authority renting**
- **Private renting**
- **Income under £7,500 per year**
- **Unemployed**

**Most common premiums experienced:**

- **Prepayment meters**
- **Non-switching**
- **(But don't incur credit-related premiums)**

**Under-represented socio-demographic groups:**

- **Older households**
- **High qualifications for age**

The third segment represents around one-in-eight (13%) low-income households and shows average exposure to 5.2 types of poverty premium, typically costing £217 per year. Most common premiums include prepayment meters – with half of those with a prepayment meter for electricity (50%) being in this segment – and the premium for not switching energy provider, plus a smattering of other types of premium (such as area-based or insurance-related ones), though not to any excessive level. Again, notably, this segment does not use higher-cost credit (with only 4% using BNPL and 0% using any other type).

The lack of use of credit by this segment can be explained either by self-exclusion from credit or by the impact of having a very low income on availability of credit to them. A third (33%) have a household income under £11,500, while three-in-five (59%) live off less than £15,500. Over half (57%) live in socially rented housing (either local authority or housing association), while 30% are in the private rented sector. 14% are unemployed and 19% are out-of-work for health reasons (19%) (with a further 16% out-of-work for other reasons, including looking after the home).

**Segment 4 – Moderate exposure, pay monthly**

**(13% of low-income households)**

**Average number of poverty premiums exposed to:** **5.0**

**Average poverty premium cost faced:** **£322**

**Most common premiums experienced:**

- **Non-standard billing**
- **Non-switching**
- **Area-based premiums**
- **Higher-cost credit**

**Over-represented socio-demographic groups:**

- **Mortgagors**
- **Older households**
- **Slightly higher income**

**Under-represented socio-demographic groups:**

- **Unemployed**
- **Aged 17-24**

The fourth segment – which also contains one-in-eight low-income households (13%) – incurs an average of 5 poverty premiums each. This is less than the third segment, but the typical cost incurred is actually higher (£322) – mainly as a result of incurring area-based and higher-cost premiums at a greater rate. Non-standard billing and non-switching were also fairly common, with 33% paying either their gas or electricity on receipt of bill.

This segment is relatively old, with 71% of the segment aged over 40 and 41% aged 60 plus. Mortgagors and those on higher incomes for their age are also slightly over-represented, while the unemployed and the youngest age group are under-represented. This segment might broadly be considered traditional money managers, who prefer to pay on receipt of bill and who may incur a loyalty premium by not switching energy provider. They face area-based premiums mainly because they are more likely to have home contents insurance than some other segments.

**Segment 5 – Moderate to high exposure, prepayment**

**(5% of low-income households)**

| | | |
|---|---|---|
| **Average number of poverty premiums exposed to:** | **5.4** | **Over-represented socio-demographic groups:**<br>● **Housing Association tenants**<br>● **Households in Northern Ireland**<br>● **Not in paid work for health reasons** |
| **Average poverty premium cost faced:** | **£238** | |
| **Most common premiums experienced:**<br>● **Prepayment**<br>● **Access to affordable food** | | **Under-represented socio-demographic groups:**<br>● **Retired**<br>● **Home-owners** |

Segment five is the smallest segment, with just 5% of low-income households falling into it. They may incur a range of different premiums, but prepayment meters and food shopping at local small outlets are particularly over-represented. Three-quarters (74%) pay for both gas and electricity by prepayment, while the remaining 26% pay for one or the other in this way. Over a third (36%) do more than half of their shopping at small outlets, compared to an average of just 16% of all low-income households. The typical costs faced by this segment are £238 per year.

Two-in-five (42%) of this segment rent from a housing association, with a further 18% renting from their local authority. Northern Irish households and those out-of-work for health reasons are also over-represented. Overall, the segment is relatively young, with few households of retirement age included.

**Segment 6 – High exposure, range of premiums**

**(13% of low-income households)**

**Average number of poverty premiums exposed to:** **5.7**

**Average poverty premium cost faced:** **£426**

**Most common premiums experienced:**

- **Non-standard billing**
- **Non-switching premium**
- **Prepayment**
- **Area-based premiums**
- **Insuring individual items**
- **Access to money**
- **Higher-cost credit**

**Over-represented socio-demographic groups:**

- **Rented from local authority**
- **Households with children**
- **Income of £11,500 to £24,999**
- **C2 and D social grades**
- **Part-time work**

**Under-represented socio-demographic groups:**

- **Incomes over £30,000**
- **Aged over 60**
- **Students**

The sixth and final segment is highly exposed to the poverty premium, experiencing 5.7 different types of premium on average and incurring an average annual premium of £426. One-in-five use a prepayment meter (19%), nearly a third pay on receipt of bill (32%), over half (53%) pay monthly for either car or home contents insurance, and 58% have not switched their energy provider. Meanwhile a third (33%) incur a premium for home contents insurance in a deprived area, with an equivalent figure of 42% for car insurance. This segment is also most likely to have household appliance insurance (35%), while use of fee-charging ATMs and prepaid cards are fairly common (both 33%). Credit, however, is where this segment really starts to see costs add up: even excluding BNPL, 56% have used at least one form of higher-cost credit, with 18% using two or more types. For example, 17% have used rent-to-own, 19% have used subprime personal loans and 21% have used Christmas food hamper schemes in the past 12 months.

This segment features an over-representation of households in local authority housing and households with children – in particular, households with a single adult and children (20% of whom are in this segment). Respondents were also more likely to be in part-time work, have incomes between £11,500 and £24,999 and to be in the C2 and D social grades. The 40-59 age group is somewhat over-represented, while those aged over 60 are under-represented.

As this segment doesn't have the very lowest incomes, they do still have access to some forms of credit, but because their incomes are still not very high, it appears that higher-cost forms of credit are often their only option. Issues balancing childcare and work appear to be seriously stretching these

households, clearly from a financial perspective but perhaps also from a time perspective, making convenience a priority and not always having time to pursue the most financially optimal method of acquiring different services.

## 3.3 Overview across the clusters

The use of a cluster analysis allows us to look at the variety of experience that different types of households incur, based on the nature and level of actual exposure to poverty premiums.

The least exposed cluster, accounting for just under one in ten low-income households currently has an extremely low poverty premium, as a consequence of the lack of a non-switching premium. The largest segment in 2022, segment two, accounts for nearly half of low income households, and is perhaps similar to the cluster seven in 2016,[89] although this cluster only represented around a quarter of households at that point. These households could be defined as 'premium minimisers': they have exposure to many premiums, but only at a low level. The level of education and social class of this group tends to be above average for the sample, as are their incomes. Their poverty premium profile, therefore, really is 'average' as there are no particular vulnerabilities, and notably, they can avoid high-cost credit premiums

We can see similarities between other 2016 and 2022 clusters; segment four could be described as 'traditional money managers' – paying on receipt of bills, and their propensity to house ownership means they are more likely to hold home contents insurance, with the consequent costs related to this. Segment five could be typified as 'involuntary premiums' – the PPM premium is strongly linked to tenure, and the affordable food premium to car ownership. Finally, the clusters that were most highly exposed in both 2016 and 2022 were more likely to be families with children, who lived in rental accommodation. Families with children were more likely to need to insure white goods, and they rely on costly credit to get by.[90] The combination of their premiums left them paying an average of £426, over twice what 'average' segment two households are paying at £171.

[89] Davies, Finney & Hartfree (2016) p.69 Paying to be poor: Uncovering the scale and nature of the poverty premium
[90] Davies & Trend (2020) The Poverty Premium: A customer perspective

# 4 CONCLUSIONS

## 4.1 Progress and problems

### 4.1.1 Discussion of key findings

Overall, the average (mean) poverty premium incurred by a low-income household in 2022 is **£217**; a considerable drop in comparison with the £490 figure that the 2016 study found as the average poverty premium then. However, the majority of change we find in 2022 can be explained by one of two factors: a change in the methodology for attributing costs, or the removal of the energy switching premium due to the 2022 energy crisis. When accounting for both of these factors, the equivalent premium in 2022 would be **£499** per year, little change from the cost calculated in 2016.

The costs have been calculated differently to reflect changing markets, and this is particularly the case for the higher-cost credit premium, as discussed earlier and below. We have also been able to better account for local area deprivation for individual households when calculating the geographical premium in car and home contents insurance, and this has decreased the number of households that we calculate would in fact be incurring this premium. Nonetheless, the cost to those who live in areas of high deprivation is still substantial.

**The impact of current energy crisis**

Overall, evaluating the total cost of the poverty premium at the moment is complicated, as many of the factors that have contributed to this change appear to be reflective of the particular and unusual circumstances of the UK in 2022. The impact of the change to the cost incurred (or not) through not switching to the best energy tariff cannot be understated; it was the biggest single contributor to the premium in 2016 and was incurred by the greatest number of people then. If cheaper tariffs do return, then the poverty premium may end up being substantially higher again. Similarly, while it is positive to see the numbers using prepayment meters declining, and this did appear to be part of a more general trend, the shift to smart meters allows households to be moved onto prepayment mode more quickly than would previously have been possible. This element of the poverty premium could also change quickly, as a result, and again increase the overall cost of the poverty premium. As noted earlier, this is a very real possibility given the concern over how many households could quickly fall into arrears with gas and electricity costs.

### The impact of regulation on the credit market

We do see positive developments in the higher-cost credit market as a result of regulation: fewer people are borrowing with payday loans or home collected credit, perhaps reflecting the shrinking market for those products, but conversely, more people than before were using subprime credit cards. The biggest difference in 2022 was the prevalence of low-income households using Buy Now Pay Later (BNPL). While this is one of the lowest credit costs that we account for, evidence suggests that many users are already struggling to manage repayments,[91] and this could increase the financial vulnerability of low-income households. Furthermore, while the poverty premiums incurred in this area are some of the highest overall, it is also worrying that the changing credit market in a post-pandemic UK may exclude some altogether. The general availability of credit is already starting to decrease: there has been a drop of 86% in the number of high-cost short-term credit (HCSTC) loans issued between 2018 and 2022, and no new entrants have entered either the HCSTC or home credit markets in the last three years.[92] This has been compensated for through an increase in borrowing from family and friends, and there is also concern that illegal money lending is on the rise, with the obvious risk of problems arising from this.[93]

### Overall impact of poverty premium

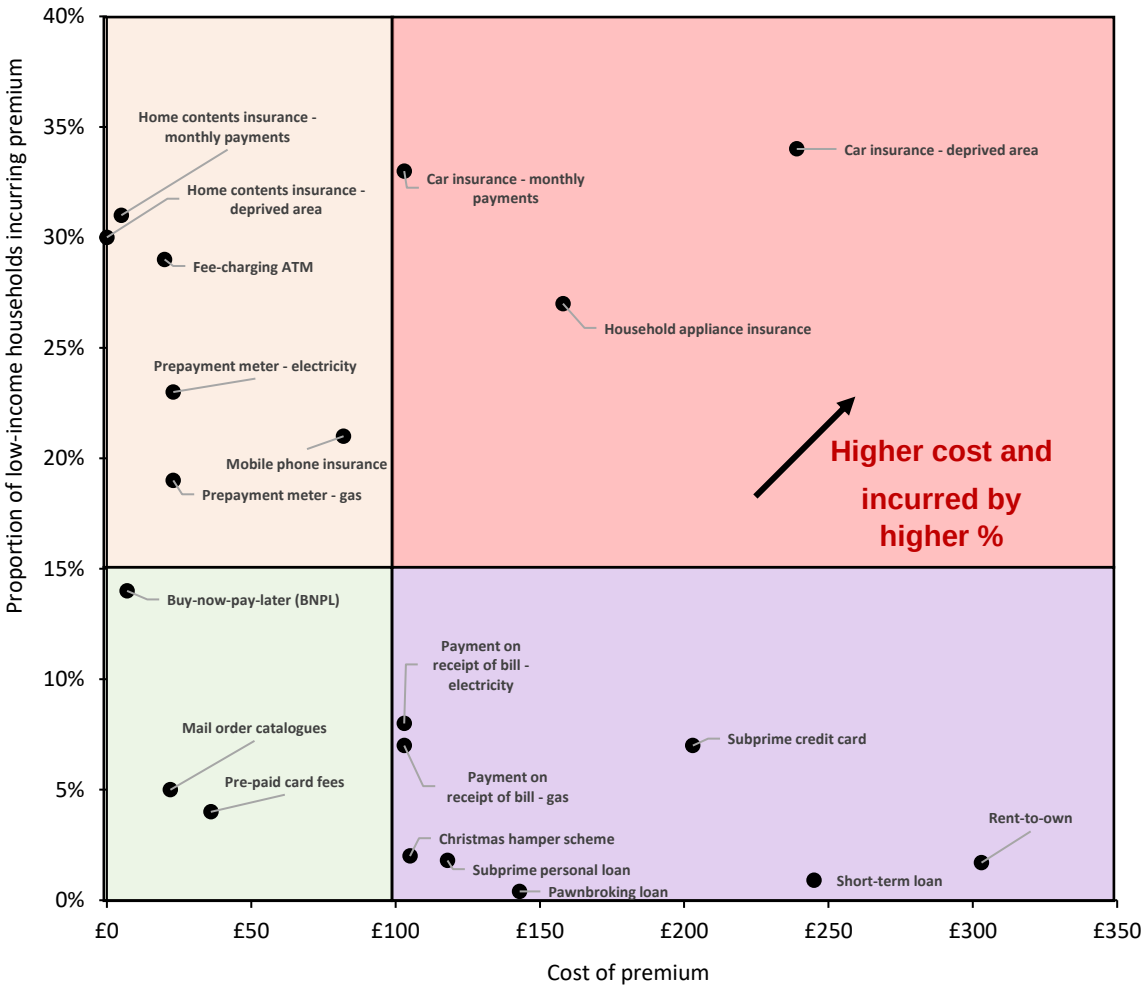
Figure 4.1 offers a way of thinking about the different poverty premiums, by comparing the cost of each type of premium with the proportion of low-income households that incur it. It might be argued that those premiums which are both higher cost and incurred by a high proportion of households are more problematic and should therefore be the priority for any policy interventions.

To an extent, the patterns that we saw previously remain; higher cost credit remains a 'deep' premium,[94] one that is costly but infrequently incurred. Non-standard billing methods remain 'wide' premiums: many incur them, but the cost is relatively modest.

Car insurance, particularly the geographical element but also the extra cost of paying monthly, is therefore the key concern in 2022. While the costs of this poverty premium have decreased since 2019, they are clearly a priority area that needs addressing. The position of household appliance insurance on the grid is also worrying – while it is positive that essential goods are covered, and that households have security, this is an unnecessarily high amount.

[91] Citizens Advice (N.D.) Buy now, pay later: what happens if you can't pay later?
[92] Fair4all Finance (2022) Blog: illegal money lending and the changing credit market.
[93] Ibid.
[94] Finney & Davies (2017) Making the poverty premium history – a practical guide for business and policy makers

**Figure 4.1, Percentage of low-income households incurring vs cost of each premium.**




Note 1: home-collected loan not included on chart to avoid distorting the scale of the x-axis (cost = £610, incurred by 1%).

Note 2: non-switching premium also not included to avoid distorting the scale of the y-axis (cost = £0, incurred by 68%).

Note 3: boxes defined based on subjective assessment of what might be considered a 'high' or 'low' costs/proportion.

The cluster analysis also confirms what was found in 2016: poverty premiums are often a consequence of the extent to which households are fully participating in society. The segments that had the highest exposure were more likely to be households with children and working part time. Both working and having children can mean extra costs, and expenses that have to be met, and doing this while on a low income appears to result in a higher propensity for higher-cost credit use. Notably, households with children were more likely than most to incur an area-based premium for car insurance. Even if it comes at a great cost, it is hard to bring up a family without access to car.

We can also see that the increased vulnerability of those with certain protected characteristics to incurring particular poverty premiums remains.[95] Those from a non-White ethnic background are more likely to pay monthly for car insurance, although less likely to hold contents insurance, and more likely to have used a fee-charging ATM. Older people are more likely to pay on receipt of a bill. Tenure also, unsurprisingly, has a considerable influence on exposure to poverty premiums. It is the poorest renters who are most likely to be using a prepayment meter, whereas those with a mortgage are more likely to hold insurance for individual items.

Therefore, while some gains have been made in reducing the poverty premium, many premiums are still incurred by the same types of household for the same reasons that we saw back in 2016. The way in which those in low-income households manage their money appears to be fairly static, and the implications of this are discussed below.

### 4.1.2 Research implications

The research confirms the need for further research into poverty premiums in the insurance market, given that many of these premiums are both high-cost and frequently incurred by low-income households. It is positive therefore that Fair By Design have commissioned further research to examine the root causes of the poverty premium in insurance.[96]

The process of conducting the research also highlights a need for more open access to data on the prices that consumers are paying for services in a range of different markets. While desk research allows us to obtain quotes for a sample of customers or areas, based on key assumptions, it would be beneficial to have more detailed data about the structure of different markets and the value and volume of different services sold to consumers in different areas and with different characteristics. This is particularly true of higher-cost credit markets and the insurance market. Implementing the CMA's recommendation for a national measure of the poverty premium would help in achieving this.

### 4.1.3 Policy implications

Through re-calculating the poverty premium, we have identified where changes to the experiences of those on a low income have occurred, and considered what factors may underpin these changes. As noted in the introduction, regulation and business practices specifically aimed at reducing the poverty premium had already been introduced before this research, and we can now gauge the extent of their effectiveness.

[95] Davies & Collings (2021) The inequality of poverty: exploring the link between the poverty premium and protected characteristics

[96] Fair By Design (2022) Press release: Columbia Threadneedle Foundation partners with Fair By Design to address barriers to financial inclusion.

### Addressing customer-driven behaviour will have limited impact

The similarities in the profiles of poverty premium exposures between 2016 and 2022 indicates that certain patterns of payment are difficult to avoid. There is surprisingly little change in the number of households incurring each particular premium, which implies that relying on individuals to change their behaviour may not have the impact that is wanted. While we have seen a drop in the number of households using prepayment meters, for example, we do not know whether this drop is a result or customer choice, or as a consequence of the roll out of smart meters.[97] The appearance of Buy Now Pay Later (BNPL) suggests that many of those on low income are happy to use low-cost credit when it is available to them. However, when excluding BNPL, we still have around one-in-six low-income households using far more costly HCSTC. In these instances, borrowers are using the money for different purposes (see figure 2.7), may not be using the money to shop where BNPL is offered, or they may lack the digitally capacity to be online, and as such, the cost of credit may not be as important as its accessibility to this group**.** **Improving access to affordable credit** would improve outcomes for this group. For those who are unable to access any form of interest bearing borrowing, Fair4All Finance, as well as investing in affordable credit provision, are trialling a No Interest Loans Scheme (NILS).[98]

Furthermore, while there was a continued increase in the number of people who did switch energy tariffs,[99] the current situation has negated any benefit to doing this. Concerns over switching were raised by low-income customers previously,[100] and it is likely that the current situation, as well as any forced move to PPMs will only decrease inclination to engage with 'shopping around' in these markets. We would recommend regulating to ensure that **customers are put on the best tariff automatically**, and that there are **no penalties for any form of payment method**.

### Regulation can reduce the cost of the poverty premium

More positively, it is evident that the price caps do have a demonstrable impact on costs: the (Prepayment Charge Restriction) Order 2016 and the Domestic Gas and Electricity (Tariff Cap) Act 2018 did reduce the gap between the standard tariff and the best value tariff, and research in 2019[101] suggested that the Rent-to-Own price cap (2019) may have reduced the costs of buying goods in this way. The FCA has introduced rules that will reduce the 'loyalty penalty' for insurance customers.[102] All of these have improved the position of customers within the respective markets.

While business practices can adjust to this regulation – the cost of buying rent to own has increased again, for example – increased regulation in the markets for essential services sends a clear message about the need to limit the costs

[97] Department for BEIS Smart Meter Policy Framework Post 2020
[98] Fair4all (2021) No Interest Loan Scheme pilot
[99] Ofgem (2019) 'State of the energy market. 2019 report.'
[100] Davies & Trend (2020) p.24 The Poverty Premium: A customer perspective.
[101] Ibid
[102] FCA (2021) General insurance pricing practices

to customers. A cross party amendment has already been tabled to include a 'regard to financial inclusion' in the new Financial Services and Markets Bill[103] recognising the harm that lack of access to mainstream financial products can cause. Therefore, a more nuanced approach to the development of regulation may decrease poverty premiums across of number of areas and so regulatory bodies should consider **regulations that address the specific inequalities experienced by those on low incomes and with protected characteristics.**

**Enhanced support for those on low incomes is unavoidable**

Finally, the financial outlook for those in low-income households in the coming year is grave – the cost of the lowest-price food items has increased by 40% since September 2021[104] most affecting those on low incomes; 70% of those who pay by PPMs report difficulty in affording it[105].

A substantial package of support has already been agreed, nonetheless, many households on low incomes will either struggle or be unable to manage their basic costs over the coming months. The support package itself is evidence that the market is not currently working effectively for many. Policymakers should consider longer-term, sustainable ways in which those who are financially vulnerable can be supported in managing their bills, ideally introducing **permanent social tariffs for essential services**. Many broadband providers already offer 'social tariffs' to those who are eligible for certain tariffs,[106] and other organisations have considered what a fair energy tariff might look like.[107]

[103] Financial services bill amendments
[104] ONS (2022) Tracking the price of the lowest-cost grocery items
[105] ONS (2022) Impact of increased cost of living on adults across Great Britain
[106] Ofcom Social Tariffs
[107] Fair by Design and NEA (2022) The case for a new social tariff in the energy market

# 5 APPENDICES

## A – Survey methodology

### Data collection and sample

Building on the survey questions used in 2016 and in 2019, we developed a new module of survey questions to capture households' experiences of incurring different elements of the poverty premium. The majority of questions remained the same; however, some key changes included the addition of Buy-Now-Pay-Later (BNPL) to our bank of questions on higher cost credit, a revised question about the proportion of food shopping done at smaller shops rather than large supermarkets, removal of paper billing as a premium[108] and a revised question on the number of times that anyone in the household had used a fee-charging ATM in the past 12 months (rather than asking a binary yes-no question as to whether this had occurred).

Ipsos-MORI were commissioned to ask the survey module questions as part of an omnibus telephone-based survey, which was conducted in June-July 2022. The survey covers a representative sample of 4,215 adults in the UK and is weighted to be nationally representative in terms of key socio-demographic characteristics.

The survey module included screening questions to ensure that the survey was completed by someone with responsibility for the household finances (usually either the Chief Income Earner or their spouse/partner) and that the questions related to the poverty premium were only answered by low-income households.

Respondents were screened into the poverty premium module if they said their income (after housing costs) was less than or around the same as the given threshold for 70 per cent median income, equivalised to take account of their household's composition (the number of adults and children making up the household). This resulted in an initial sample of 826 potentially low-income households. We additionally took the precaution to screen out from the

[108] Since 2016, it has become increasingly hard to receive a **paper bill** through the post for any service. Most companies encourage customers to download and print the online bill if a hard copy is needed. Eon will send a copy of the bill on request, but give an annual £5 paperless discount to those who don't. On this basis, we have excluded the paper billing from the 2022 poverty premium, given the small cost, and the limited number of people who were incurring it.

analysis those whose income band, given in response to a later question in the omnibus survey, was sufficiently higher than the upper income threshold for their household's composition for them to be realistically considered as living at or around the 70 per cent median income threshold. This resulted in a sample available for analysis of 741 respondents (equivalent to 22% of valid households where the respondent was responsible for household finances – or 17% of all households). As such, we can be confident that, based on the information available, the households represented by the resulting sample were living at, around or below 70 per cent median income for the country as a whole. The 70 per cent threshold allows us to capture the experiences of households on the fringes of poverty, as well as those in poverty. We refer to these households as low-income households.

Appendix Table 1 gives the demographic characteristics of those the low-income households who completed the survey.

**Appendix Table 1 – Demographics of survey respondents**

| | | Weighted Count | Weighted % | Unweighted Count | Unweighted % |
|---|---|---|---|---|---|
| Total | | 836 | 100% | 741 | 100% |
| Tenure | Owned with mortgage | 108 | 22% | 99 | 23% |
| | Owned outright | 90 | 18% | 88 | 21% |
| | Rented from local authority | 92 | 19% | 71 | 17% |
| | Private rented | 101 | 20% | 85 | 20% |
| | Rented from housing association | 90 | 18% | 72 | 17% |
| | Other | 13 | 3% | 11 | 3% |
| Age group | 17-24 | 66 | 8% | 63 | 9% |
| | 25-39 | 241 | 30% | 185 | 26% |
| | 40-59 | 266 | 33% | 244 | 34% |
| | 60-74 | 154 | 19% | 145 | 20% |
| | 75 plus | 90 | 11% | 85 | 12% |
| Working age? (Under 66) | Not working age | 158 | 19% | 149 | 21% |
| | Working age | 658 | 81% | 573 | 79% |
| Any children (under 18) in household | No children | 531 | 64% | 482 | 65% |
| | One or more children | 305 | 36% | 259 | 35% |
| Household composition (adults = 14 and over) | Single adult without children | 254 | 30% | 221 | 30% |
| | Two adults without children | 182 | 22% | 169 | 23% |
| | Single adult with children | 66 | 8% | 52 | 7% |
| | Two adults with children | 117 | 14% | 95 | 13% |
| | Three or more adults without children | 140 | 17% | 131 | 18% |
| | Three or more adults with children | 77 | 9% | 73 | 10% |
| Has access to vehicle? | No vehicle | 178 | 35% | 151 | 35% |
| | Has access to a vehicle | 329 | 65% | 286 | 65% |

| | | | | | |
|---|---|---|---|---|---|
| Nation of UK (with London as separate category) | England (ex. London) | 607 | 73% | 500 | 67% |
| | London | 90 | 11% | 82 | 11% |
| | Northern Ireland | 27 | 3% | 24 | 3% |
| | Scotland | 69 | 8% | 88 | 12% |
| | Wales | 42 | 5% | 47 | 6% |
| Ethnic background | White | 717 | 86% | 623 | 85% |
| | Non-White | 116 | 14% | 114 | 15% |
| Nation of UK (with London as separate category) | Under £7,500 | 50 | 10% | 38 | 8% |
| | £7,500 to £11,499 | 99 | 19% | 86 | 19% |
| | £11,500 to £15,499 | 92 | 18% | 78 | 17% |
| | £15,500 to £24,999 | 110 | 21% | 94 | 20% |
| | £25,000 to £29,999 | 59 | 11% | 50 | 11% |
| | £30,000 to £39,999 | 50 | 9% | 51 | 11% |
| | £40,000 plus | 62 | 12% | 63 | 14% |
| Income for age | Low income for age | 204 | 39% | 167 | 36% |
| | Mid-income for age | 160 | 31% | 134 | 29% |
| | High income for age | 159 | 30% | 159 | 35% |
| Monthly housing cost | Nothing / under £250 | 317 | 38% | 289 | 39% |
| | £250-499.99 | 218 | 26% | 182 | 25% |
| | £500 - 749.99 | 182 | 22% | 153 | 21% |
| | £750 - 999.99 | 56 | 7% | 53 | 7% |
| | £1000 or more | 64 | 8% | 64 | 9% |
| Social grade | A | 12 | 1% | 8 | 1% |
| | B | 90 | 11% | 74 | 11% |
| | C1 | 151 | 19% | 203 | 29% |
| | C2 | 180 | 22% | 130 | 19% |
| | D | 126 | 16% | 97 | 14% |
| | E | 246 | 31% | 188 | 27% |
| Work status of respondent | Full-time work | 229 | 27% | 217 | 29% |
| | Part-time work | 104 | 13% | 90 | 12% |
| | Self-employed | 51 | 6% | 56 | 8% |
| | Student | 29 | 3% | 28 | 4% |
| | Unemployed | 45 | 5% | 34 | 5% |
| | Retired | 191 | 23% | 177 | 24% |
| | Not in paid work - other reason | 50 | 6% | 40 | 5% |
| | Not in paid work - health | 96 | 12% | 70 | 9% |
| | Not in paid work - home | 39 | 5% | 26 | 4% |
| Qualifications for age | Low quals for age | 373 | 46% | 287 | 39% |
| | Average quals for age | 270 | 33% | 208 | 29% |
| | High quals for age | 176 | 21% | 232 | 32% |

**Segmentation of low-income households based on exposure to different poverty premiums**

We used a technique called cluster analysis to assign households into six different segments, based on their exposure to different types of poverty premium. The function of cluster analysis is to identify 'natural' structures within a data set based on multiple variables. It allocates cases (in this case households) into groups in such a way that maximises similarity (homogeneity) within each group while simultaneously maximising differences (heterogeneity) between the groups. Cluster analysis can therefore be seen as a statistical approach to segmentation or typology construction. The analysis uses a set of pre-defined measures of interest, in this case individual poverty premiums variables. Therefore, the objective here is to create homogenous and distinct groups of households based on the level and nature of their exposure to premiums across these areas. However, in order for cluster analysis to be considered successful, it not only has to identify distinct and interpretable groups, but those groups also need to be identifiable based on other characteristics, such as demographic characteristics.

For the purposes of this analysis, we have used 23 poverty premium variables. This is lower than the number of premiums we describe elsewhere, and reported in the resulting breakdowns of the clusters (including for the purposes of calculating the costs). This is because we removed the any home insurance and any car insurance premiums (used to calculate premiums associated with living in a deprived area) as these would tend to drive the cluster analysis too strongly by financial inclusion and exclusion (and car ownership), rather than by the experience of premiums per se. This reduced the available premiums to 23.

Cluster analysis is a really a collection of multivariate techniques. The main distinction is between hierarchical and non-hierarchical methods. Hierarchical methods are powerful and sophisticated methods which can simultaneously evaluate a large number of solutions. Non-hierarchical methods are computationally less heavy than hierarchical methods but enable one or more preferred solutions to be refined iteratively, allowing the re-assignment of cases to alternative clusters to improve the initial solution. Here, we use both methods in combination: hierarchical clustering followed by a common non-hierarchical method, k-means clustering (also known as centroid clustering).

This, two-stage, approach is widely regarded as an optimal approach to producing the best, most parsimonious (simplest most distinguishing) solution. However, k-means clustering is not recommended for binary (no/yes) measures, which all of our poverty premiums take the form of. The two-stage clustering process was therefore undertaken not on the 23 raw, binary variables but on a subset of 21 composite variables, constructed using principal components analysis (PCA), which represented those 23 variables.

The use of PCA afforded two advantages. First, it returned continuous, or scale (measured scored on a scale with mean 0 and standard deviation of 1), variables which are amenable to both forms of cluster analysis. Second, it resolved inherent relationships which naturally existed between the binary

variables and which might risk artificially driving the cluster analysis (for example, a household with a prepayment meter for electricity would be highly expected to also have a prepayment meter for gas, and this correlation alone might determine a cluster). Despite reducing the number of premium variables for use in the cluster analysis, this approach nonetheless retained the full richness of the data: all 23 binary variables remained represented by the 21 resulting continuous variables.

From the initial hierarchical analysis, we identified solutions ranging from three to eight clusters as favourable solutions (based on a diagnostic chart, the dendrogram, and Analysis of Variance, which examines the ratio of homogeneity to heterogeneity mentioned above). Based on these results, we requested solutions with three to eight clusters inclusive in the second stage of cluster analysis, k-means clustering, encompassing our two indicated solutions and one either side of these. The k-means clustering also used the cluster centres (or centroids) for each cluster, produced in the hierarchical clustering, as the starting point (initial centre) for the clusters and refined the solutions based on these.

The k-means clustering found that a six-cluster solution was optimal (based on Analysis of Variance). Our interpretation of the resulting clusters was made based on an analysis of the clusters by the original binary variables.

We undertook a separate, parallel run of the original 23 binary variables in hierarchical clustering in order to compare and validate the results of the solution above. This confirmed that a six-cluster solution was optimal and returned similar results in the composition of the clusters.

# B – Costing methodology

### General principles

The aim of the costing exercise is to determine the price paid by low-income households for services, relative to a benchmark cost for the typical household that is not on a low-income.

For more detail on the principles used to determine costs and to gather quotes, please see our 2016 costing appendix, given that the same principles have been used again in 2022.

### Components of the poverty premium

Appendix Table 2 below gives an overview of how the costs for each type of poverty premium have been obtained.

The majority of costs were calculated as of autumn 2022, but the costs for energy customers paying by prepayment or on receipt of bill were revised in April 2023 to reflect rapid changes in the energy market.

## Appendix Table 2 Description of costs used

| | Premium | Description | Any methodology changes? | Cost of poverty premium 2022 |
|---|---|---|---|---|
| | | | | £ / year |
| | **Use of prepayment meters** | | | |
| A1 | Prepayment meter - electricity | Extra cost of prepayment meter tariff versus standard variable tariff for dual fuel direct debit payment. We divide dual fuel tariff premium by two to reach values for electricity and gas separately. | No | £23 |
| A2 | Prepayment meter - gas | | No | £23 |
| A3 | On best prepayment meter tariff | Extra cost of being on the best prepayment meter tariff relative to being on the best monthly direct debit payment. | No premiums related to not switching in 2022 | £0 |
| | **Non-standard billing methods** | | | |
| B1 | Payment on receipt of bill - electricity | Extra cost of quarterly billing compared with direct debit payments. We divide dual fuel tariff premium by two to reach values for electricity and gas separately. | No | £103 |
| B2 | Payment on receipt of bill - gas | | No | £103 |
| B3 | On best payment on receipt of bill tariff | Extra cost of being on the best quarterly bill tariff relative to being on the best monthly direct debit payment. | No premiums related to not switching in 2022 | £0 |
| B4 | Home contents - monthly payments | Extra cost of paying monthly rather than annually for insurance. | No | £5 |
| B5 | Car insurance - monthly payments | | No | £103 |
| | **Not switched to best fuel tariff** | | | |
| C1 | Not switched to best fuel tariff | Extra cost of not having switched dual fuel monthly direct debit tariff in last two years, relative to those who have switched. | No premiums related to not switching in 2022 | £0 |
| | **Area-based premiums** | | | |
| D1 | Home contents insurance - deprived area | Original methodology meant this was the extra cost of home insurance if living in 20$^{th}$ percentile of deprivation, relative to median (50$^{th}$ percentile) level of deprivation. | New methodology used in addition to | £0 on all measures |

| | | | | |
|---|---|---|---|---|
| | | New methodology means we have different premiums for the bottom quintile of areas based on deprivation ranking and for the second quintile. For the bottom quintile, we calculate this as the extra cost of average quote for the 10th percentile and 20th percentile, relative to the 50th percentile. For the second quintile, we use figures for the 30th and 40th percentiles, relative to the 50th percentile. | previous methodology. | |
| D2 | Car insurance - deprived area | Original methodology meant this was the extra cost of car insurance if living in 20th percentile of deprivation, relative to median (50th percentile) level of deprivation. | New methodology used in addition to previous methodology. | £239 using original method |
| | | New methodology means we have different premiums for the bottom quintile of areas based on deprivation ranking and for the second quintile. For the bottom quintile, we calculate this as the extra cost of average quote for the 10th percentile and 20th percentile, relative to the 50th percentile. For the second quintile, we use figures for the 30th and 40th percentiles, relative to the 50th percentile. | | £233 for bottom quintile<br>£0 for second quintile |
| | **Insurance for individual items** | | | |
| E1 | Household appliance insurance | Typical cost of policy covering a number of kitchen appliances up to £1,000 in value. | No | £158 |
| E2 | Mobile phone insurance | Typical cost of policy covering 1.25 mobile phones which meet the minimum income standard. We use 1.25 to account for households with multiple adults. | No | £82 |
| | **Access to money** | | | |
| F1 | Fee-charging ATM | Typical cost of using one fee-charging ATM per month. Based on average fee-charging ATM withdrawal fee of £1.68. We produce one measure which is consistent with previous years, based on 12 withdrawals per year – and one measure based on a new survey question asking households to estimate how many withdrawals they made in the last 12 months. | New methodology based on households' usage of fee-charging ATMs | £20 using original method<br>£25 using new method |
| F2 | Pre-paid card fees | Cost of making 10 withdrawal/top-up fees per year plus application fee for typical pre-paid card. | No | £36 |
| | **Higher-cost credit** | | | |
| G1 | Rent-to-own | Extra cost of purchasing a TV (most commonly bought item via rent-to-own in our survey) on rent-to-own, versus buying the same TV outright. | No | |
| G2 | Short term loan | Typical cost of credit on three short-term £250 loans paid back over three months each. Multiplied by 1.25 to give household value. | Previous methodology was based on two £200 loans. This | £161 using original assumptions |

| | | | | |
|---|---|---|---|---|
| | | | was updated in line with FCA data. | £245 using new assumptions |
| G3 | Buy-Now-Pay-Later (BNPL) | Citizens Advice data suggests 28% of BNPL users charged a late fee. We therefore take average late fee across seven BNPL providers and multiply by 28% - this is then multiplied by 1.25 to give household value. | New for 2022 | £7 |
| G4 | Home collected loan | Typical cost of credit on two loans of £450, one paid back over 26 weeks (535% APR) and one over 52 weeks (299% APR). | No | £610 |
| G5 | Pawnbroking loan | Typical cost of credit on two six month loans of £120 (155% APR). | Previous methodology was based on two £130 loans. Updated based on PFRC pawnbroking analysis | £155 using original assumptions<br>£143 using new assumptions |
| G6 | Subprime personal loan | Typical cost of credit on two six month loans of £450. | No | £118 |
| G7 | Subprime credit card | Typical cost of credit on £900 borrowed being repaid over 12 months (37.65% APR). Multiplied by 1.25 to give household value. | No | £203 |
| G8 | Mail order catalogues | Extra cost of purchasing a minimum income standard spec washing machine via mail order catalogue (paid over 52 weeks at 39.9% APR) versus buying the same washing machine outright. | No | £22 |
| G9 | Christmas hamper scheme | Extra cost of buying a typical Christmas hamper versus buying the same hamper items at a supermarket. Supermarket quotes for each item obtained from trolley.co.uk. | No | £105 |
| | **Unable to access affordable food** | | | |
| H1 | Unable to access affordable food | Extra cost of purchasing food and non-alcoholic drinks from smaller outlets rather than large supermarkets, compared to the typical extra costs faced by the average household which buys 17% of their food from such outlets. Based on: *Which?* data showing that typical cost at smaller stores is 9% higher; ONS Family Spending data on food and non-alcoholic drinks for equivalised income quintiles; CPI inflation for August 2022; and ONS data indicating that 17% of typical household food spending is done at smaller outlets. Households were asked a survey question about % of spending done at such outlets: 25%, 50% or 75% plus. From this we estimate the amount they spend at small | Question not asked in 2019, and slightly different question used in 2016. New methodology therefore used in addition to previous methodology. | 2022 methodology:<br>£24 if spend 25% at smaller outlets<br>£101 if spend 50%<br>£177 if spend £177 |

outlets and how much more this would cost than if they did just 17% of their food shopping at such outlets.

Mean = £84

To produce a measure comparable with 2016, we applied the same assumptions as in 2016. This meant assuming that the typical cost of food at smaller stores is 12% higher (not 9%) and meant we benchmarked against a household buying none of their food from smaller stores (rather than 17%). The survey question was converted into a binary, with only those spending more than 50% at smaller outlets receiving the same premium.

2016 methodology – for comparison:

£204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