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# BEING POOR SHOULDN'T COST MORE

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A roadmap for tackling  
the Poverty Premium



**FAIR BY DESIGN**

Ending the extra costs of being poor

**“Life can be hard for everyone, no matter what your circumstances. We certainly shouldn’t be making it harder for those whose circumstances are already more difficult than most.**

**The Poverty Premium targets those who can least afford it and we all – government, business, regulators and the wider public should be working towards eradicating these unfair charges on essential services and products.**

**Through the End High Cost Credit Alliance I am leading a movement that aims to do this with access to credit, and in collaboration with the Fair By Design team we aim to design out the barriers to fair and responsible finance.”**

Michael Sheen, actor and founder of the End High Cost Credit Alliance

## **What is the Poverty Premium?**

People on low incomes pay more for a range of essential products and services. This is the Poverty Premium, the extra cost of being poor, and a driver of poverty.

**Being poor costs more** when the washing machine breaks and the bank won't lend you money because you're on a low income. Your only choices then are family and friends, or a payday lender or rent-to-own company, where you'll end up paying three times as much. And if you manage to get a washing machine you'll need to top up the electricity meter to do the washing. And if the meter's pre-pay, it will be more expensive than for people who have the money to pay their energy costs by Direct Debit.

**Fair by Design is a movement** dedicated to reshaping essential services so they don't cost more to low income consumers. The Poverty Premium is unfair but it doesn't have to be this way: we believe by working together we can end this injustice.

**Fair By Design collaborates** with industry, government, and regulators to design out the Poverty Premium. Our investment fund provides capital to help grow new and scalable businesses to innovate the market.

**Fair By Design has put this road map together** with a group of sector experts (listed below), who each contributed their considerable knowledge of the Poverty Premium. We are extremely grateful to them all for their input.

## **Co-authors**

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## A day in a life where being poor costs more

# £233

### FOR ENERGY



**8.30am** Lisa is a single parent who lives with her two children. She has a part-time cleaning job paying the minimum wage. Because Lisa doesn't have the cheapest fuel tariff she ends up paying 64p more than the average every single day for electricity and gas, **resulting in £233 more every year. She pays £1,577 when the average is £1,344** for the people who live up the road in Wisteria Gardens in the better off part of the town.

# £48 FOR A PAYDAY LOAN

**10am** She goes to put on yet another clothes wash, but the machine won't start. To buy a brand new one will cost her about £200 up front, money she just doesn't have. The bank will never lend her that much so she calls up a payday loan company. They could lend her the **£200 which, including interest after 30 days, will cost her £248.**



**11am** Lisa needs car insurance because bus trips would cost around a tenner every day. The average cost of insuring a car is £485 per year, but because of where Lisa lives it comes to £559. **If she lived in Wisteria Gardens it would cost about £80 per year less.** When she buys the insurance, she's charged a 20% premium for spreading the costs over 12 months.

# CHARGED A 20% CAR INSURANCE PREMIUM



# £534 WILL END UP COSTING £1170



**12.30** Lisa is the main carer for her disabled mother. Her mum's fridge packed in two weeks ago.

She goes to the local shopping centre. One shop sells a good quality fridge freezer for £469. It's a lot of money but she and her mum have spent almost that on two fridges in the last four years. There is no way they can afford it in one go, but a rent-to-own store has the same fridge. At **£534**, it's more expensive but they can pay in weekly instalments. It's on credit at 69.9% so **that will eventually cost her £1,170 over three years** – much more than up front – but the weekly payments should be manageable if her mum cuts down a bit on heating.

**4pm** She gets home, feeling really stressed out. The doorstep loan agent rings the bell. She knew it was a bad idea but she had to borrow from them to cover her costs the other week. **A £300 loan spread out over three months ends up costing £429.** If her overdraft limit was bigger, and she could get the money that way it would cost about £40 to do the same thing. But the banks don't want to know.

**1pm** Lisa usually gets paid in cash but this time she's been given a cheque. That's no good for her as she needs the money now.

She has a bank account but she's over her overdraft limit so if she pays the money into the bank it will just be swallowed up by her overdraft and she won't get the cash. So she goes to a high street cheque casher. They charge 4% of the cheque value, but she doesn't feel she has any other options. **To cash her monthly wage cheque of £268 she'll end up paying £10.72.**

**1.30pm** She needs some nappies for her youngest. She looks in one shop and sees 96 nappies for a tenner, which is really cheap. But she can't afford to pay that in one go now. She'll have to buy 24 for £4 because that's all she has to spend this week.



# CAN'T AFFORD TO BULK BUY

# £300 LOAN COSTS £429



**“I am a single mum and a teacher. My son died last year. He is buried in our local cemetery but we couldn’t afford a headstone for him. We ended up getting a loan and now the collectors won’t leave us alone, banging on the door all hours and telling us if we don’t pay up it will just cost more and more. This loan is like being punished for my loss when all I needed was a place to go to remember him.”**

Paulette, Croydon

## The scale of the problem

There are around 14 million people in the UK (20% of the population) living in poverty. That’s eight million working-age adults, four million children and 1.9 million pensioners struggling on a household income of less than £16,000 a year.

The Poverty Premium costs the average low income household £490 a year, but for more than one in ten of these households it costs at least £780. Some of these premiums are detailed in the table below:

*‘Paying to be poor: the scale and nature of the poverty premium’, Personal Finance Research Centre, University of Bristol, 2016*

Premium Type	Low income households incurring this %	Average premium per low income household £/ year	Average premium as a share of the total %
Use of payment meters	33	£38	8
Non standard billing methods	5	£33	7
Not switched to best fuel tariff	73	£233	48
Paper billing	49	£12	2
Area based premiums	73	£84	17
Insurance for specific items	23	£27	6
Access to cash	29	£9	2
Higher-cost credit	16	£55	11
<b>Total</b>	<b>99</b>	<b>£490</b>	<b>100</b>

The Poverty Premium affects both people on benefits and those on low incomes struggling to make ends meet. Some people in poverty have physical and mental health issues which intensify its effects. And there isn’t just one premium - 29 separate Poverty Premiums have been identified.

The Poverty Premium has a range of knock-on effects on people who are already struggling financially. It means having less money to pay for basics, having to go without to avoid premiums, more people needing state support and increased reliance on crisis services like food banks.

## Why is there a Poverty Premium?

We think there are three primary reasons, although there are many others that work together to create this penalty:

# 1

### THE UNFAIR COSTS OF LIVING

**Many essential services are priced in a way that ends up penalising certain groups.**

Just like the 'loyalty premium' some people pay a Poverty Premium if they are considered too risky for, or excluded from, every day services.

For example, some people pay higher insurance premiums if they live in 'high crime' areas.

**And not having the money for upfront annual payments can result in more expensive monthly payments for a range of services.**

Low income consumers are often charged a premium to fund services for better off customers considered more 'valuable'. **For example, the costs of overdrafts paid by the poorest subsidise 'free if in credit' banking for better off people.**

# 2

### THE MYTH OF THE 'SUPER CONSUMER'

**Very few of us have the time or know how to compare the prices of every product or service we buy and then switch to better deals. The market is often complex and overwhelming, particularly for those who struggle to get through each day.** Where

people do switch, they generally do this after comparing prices online but lower income groups are more likely to be digitally excluded.

Whose problem is this? Should we expect people who are already struggling to get by each day to divert their energies to navigate complex markets to get a better deal, when often they are priced out anyway? **Should people be expected to spend time sifting through lots of different energy tariffs on price comparison websites, rather than just being automatically switched? Or should the markets be providing fairer, more equitably priced services for everyone?**

# 3

### ONE SIZE DOESN'T FIT ALL

**Sometimes the products and services we require on a day-to-day basis haven't been designed with low income consumers – real people with real lives – in mind, but instead what service designers think they should be like.**

Large numbers of people are on zero hours contracts, paid weekly with uneven income levels. For people in those situations, paying bills on a monthly basis is unmanageable.

In addition, none of us lead lives without occasional shocks or surprises. **But for people experiencing poverty, dealing with what can seem like a minor issue to many of us, such as an unexpected bill or a broken down cooker, can be a major problem.**

**"I got so fed up of asking people to lend me money so I got a credit card, then some store cards and I have debts on all of them now, not just what I owe but all the interest too. So I pay a debt management company to pay my debts which costs me more money. You try living on £200 a week with two kids and loads of bills to pay."**

Lisa, Birmingham

**"They said my car insurance would be £900 a year probably because there's so many cars being nicked in this area. I can see now why a lot of people don't pay insurance round here because the fine you get is like £300 for getting caught with no insurance. Why should I have to pay more than the people who live in the posh area near me?"**

Dunia, Brighton

## How can we end the Poverty Premium?

We have focused on three things that government, regulators and businesses can each do to reduce the Poverty Premium. These actions could make a real, tangible difference to thousands of people's lives right now.

### BUSINESSES SHOULD:

- = **Commit to 'Poverty Premium proofing' all their products and services** to ensure low income customers aren't paying more for essentials. Examples include maintaining free cash machines in all areas, or creating a basic, low cost contents insurance product.
- = **Invest in making sure all products and services are suitable for people in poverty** by working directly with low income consumers and customer user groups to bring their first-hand knowledge to the service design process.
- = **Provide more coaching and support services for new businesses**, specifically for those using innovation to 'design-out' the Poverty Premium, using existing examples of accelerator hubs and business incubators as good practice.

### REGULATORS SHOULD:

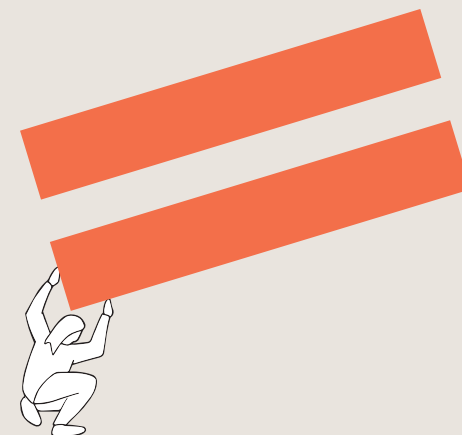
- = **The Financial Conduct Authority (FCA) should broaden its regulation** of all forms of high cost credit including caps on those not currently covered: costly bank overdrafts, rent-to-own, home-collected credit, catalogue credit, and store cards.
- = **The Competition and Markets Authority (CMA)**, which has been a leader in looking at the Poverty Premium, **should lead on a partnership between all relevant regulators** to reduce and ultimately remove the Poverty Premium in all its forms. It could start with the higher prices low income consumers pay for essential services, including the extra cost of customer loyalty, learning from good practice in each of their respective sectors. Where they are unable to act they should publicly hand over these problem areas to the Government so it takes remedial action.
- = **All regulators should commit to hosting incubation hubs** which help new businesses test their ideas, particularly for those ventures working specifically to eradicate Poverty Premiums in their sector.

### GOVERNMENT SHOULD:

- = **Set up a wide-ranging inquiry**, working with a variety of regulators and businesses, to tackle the scourge of the least well-off in society paying more for their everyday essentials. They should also work with regulators (including the Financial Conduct Authority and OFGEM) to make sure a company's duty of care includes ensuring that those customers who are on a low income are on the best deal available.
- = **Take a lead on creating a Vulnerable Citizens Strategy**, which should include making sure people on low incomes don't end up paying more for their essential services and products.
- = **Investigate the feasibility of no-interest loan schemes (NILS)** whilst also introducing a grant scheme to help people whose situations would be made worse by commercial credit options. Additionally, ensure existing local Welfare Assistance Schemes are properly advertised and offered to those who need them.

### OTHER STAKEHOLDERS:

- = **Social landlords should ensure every new tenant is automatically placed on the cheapest energy tariff.** They could also reduce costs to tenants (and themselves) by ending the practice of stripping accommodation when a tenant vacates a property, and instead leave carpets and curtains if new tenants want them.
- = **Lettings agents should work together to create the means for refundable deposits to be paid in monthly instalments** rather than in one lump sum for renters.
- = **Employers should support low income employees to avoid the Poverty Premium by providing access to finance solutions** in times of emergency, like advances on wages. They should also support bulk buying clubs for employees for things like discounted annual travelcards – giving those unable to afford the up front cost the option of repaying it monthly.



## Examples of ventures tackling the Poverty Premium, some of which have been invested in by the Fair By Design Venture Fund



**Switchchee** is the UK's first smart thermostat for social landlords. The Switchchee thermostat learns the household routine and will automatically reduce the temperature of the home when everyone is out. This means that, without any effort from the resident, energy bills are reduced. Switchchee also helps landlords reduce their maintenance costs, allowing them to reinvest in their housing stock, leading to better quality homes.



**Five Lamps** is a responsible lender of personal and business loans, at much fairer rates than the payday lenders. It offers lower cost, affordable and flexible loans and it considers each case on merit, whatever your credit history looks like. It works in partnership with the Money Advice Trust to help its customers build their financial strength and improve their lives.



**Street UK** is an ethical loans company that provides a cheaper alternative to high cost lenders. It provides an affordable range of financial products and services to individuals that have difficulty in obtaining these from mainstream institutions such as banks and building societies. Products are designed around the applicant and if they are unable to provide credit budgeting advice and support is given.



86% of the population is paid monthly. Wagestream gives workers financial freedom by giving them access to their earned wages at any time, rather than weekly or monthly pay. It's helping to combat the payday loan industry and has a significant impact on wellbeing, by contributing to a reduction in financial stress.



**We Are Digital** is a digital and financial education provider, delivering innovative programmes through its nationwide network of tutors. The team aims to tackle social polarisation by helping to get the digitally excluded online.



**Fair For You** is a new alternative to high-cost weekly payment stores like Brighthouse. You buy directly from its suppliers, take out a loan from Fair For You and then pay later in flexible instalments. You pay what you can afford, when you can afford it and the faster you pay it off, the less you pay. Fair For You is a not for profit alternative to high cost credit, offering flexible, affordable and ethical loans for household items through its website.



**Our Power** is a not-for-profit energy provider that's owned by social landlords, local authorities and community groups and it makes sure that every customer gets the best tariff possible. It doesn't pay dividends to shareholders, meaning it can pass the savings directly to its customers. It also doesn't charge more for pre-payment meters, helping customers to make the most of their energy and escape fuel poverty.



**Incuto** is the first platform advancing the technology of Credit Unions, allowing them to be as responsive and flexible as payday loan companies. By supporting and improving the infrastructure of Credit Unions, Incuto is directly contributing to the financial wellness of its members.

## Funders

Fair By Design receives grant funding/social investment from the following partners:

**Barrow Cadbury Trust**

**Big Lottery Fund**

**Big Society Capital**

**Comic Relief**

**Joseph Rowntree Foundation**

**Social Tech Trust**

**The Tudor Trust**

**I live in a housing association flat. I'd been homeless for years before that, selling the Big Issue and just about getting by. This flat has a pre-payment meter for gas and electricity and it costs like 50 pounds a month and I really don't reckon, if I was paying by Direct Debit, which I can't do because I don't have the money coming in, that it would cost anything like that.**

Mark, Bethnal Green



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