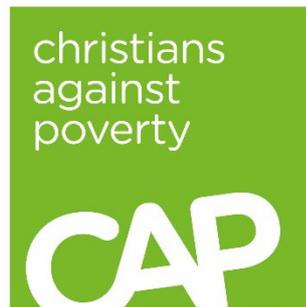


Poverty Premium Manifesto Asks

Co-signees



Introduction

There are some products and services that we all need, irrespective of income, age, mental and physical health, ability or disability. The way products and services are designed and sold can mean the difference between a person being able to plan for their own financial resilience or being locked out of markets all together. It can mean paying more for products simply because you are time poor or have difficulty navigating a complex marketplace. It can mean that someone pays more for an essential service simply because they are poorer than their neighbour. It can mean not being able to afford to heat your home or keep the lights on at night.

1. Reducing harm caused by high cost credit and persistent debt

Experience of financial difficulties remains widespread among UK households. Over 3 million people are struggling with problem debt; another 9.8 million are showing signs of financial distress. Life events such as losing a job or having hours cut, splitting-up with a partner, falling ill, or becoming a carer are common triggers of financial difficulty. Too many households lack the financial resilience to cope with income or expenditure shocks and instead have to use credit to get by. While credit can be a useful lifeline for short term adjustment, when borrowing becomes the only way people can find to pay their bills it is easy to become trapped in a cycle of increasingly expensive and harmful debt.

- People using an overdraft or credit cards to cope with a life event are ten times more likely to fall into problem debt than people who were able to get by without using them.
- In 2017, 9.3 million people were using credit to cover the cost of everyday essentials like food and household bills with 1.4 million people turning to high cost credit.

The next Government needs a strategy to break the cycle of high cost borrowing and end the damage caused by persistent debt. This should include the following:

- **Ensuring that no one must pay more in interest and charges than they have borrowed.** MP's took decisive action to cap the cost of payday lending, resulting in a 100% cap on the total cost of credit. The FCA recently introduced a 100% cost cap on rent to own agreements on the grounds that 'the prices firms charge for servicing a vulnerable consumer base can cause harm simply because they are too high. We agree; but this is not just a problem for payday loans and rent to own agreements – the principle of a 100% total cost cap should be extended to all forms of credit, including overdrafts and credit cards.
- **Further action to tackle harmful credit: A duty of fairness in the consumer credit market.** While a total cost cap gives a vital backstop, there is an urgent need to address poor lending decisions, product design that exploits vulnerability and lenders' conduct that can combine to lock people into harmful and expensive persistent debt. The next Government can strengthen the FCA's hand and hardwire fairness into the consumer credit market introducing a binding legal duty ensuring consumer credit firms cannot take advantage of consumer vulnerabilities, behavioural biases or constrained choices.
- **Developing an affordable credit strategy to provide safe and affordable credit:** While better regulation of credit markets can prevent harm, lower income households will always need access to credit for emergency expenses and household goods. The next Government should set out a strategy to reduce the number of people using high cost credit for essential household bills, emergency expenses and essential household goods. This should include a commitment to follow up the HMT feasibility study by rolling out a *no-interest loan scheme* for the UK, similar to the successful Australian *Good Shepherd* scheme that has successfully given people a viable alternative to harmful high cost credit.

2. Insurance - Financial Resilience

Around 23 million people have experienced a life shock in their household in the past two years. People who have experienced a life event in the last two years were three times as likely after to be in problem debt than those who had not. This points to the need for a radical overhaul of protection mechanisms against life events¹.

Insurance helps people plan beyond today. It allows people to take responsibility for their own financial health and resilience. However, with increasing personalisation of risk, a commitment needs to be made by the government to ensure all people have easy and affordable access to general and protection insurance to protect themselves and their families from falling into problem debt after a life shock. We have seen innovative solutions to previously viewed 'intractable' problems in insurance, for example Flood Re. We now need a nationwide, cross-market approach to accessible and affordable protection which includes general insurance but, importantly, addresses the need for widely available, affordable protection insurance such as income protection.

We are calling for an iteration of the Flood:Re initiative, led by the government, to improve protection for low income households against the financial risks that come with unforeseen life events.

3. Making markets work for all

Despite progress being made in the treatment of consumers in vulnerable circumstances essential products and services are largely still designed for mythical 'super consumers'. These consumers are always in good physical and mental health, always have a consistent level of income, have the skills to navigate complex markets, and have plenty of spare time to search out the best deal. This type of design process neglects the multiple complications many consumers will face over the course of using such a product or service. The UK Competition and Markets Authority (CMA) and other regulators should show leadership to tackle unfairness within essential services such as energy, credit and insurance.

¹ <https://www.stepchange.org/policy-and-research/life-happens.aspx>

The CMA and regulators of essential services such as the FCA and Ofgem should have a duty to incorporate *inclusive design* into the work they do. This duty would require them to:

- ensure they understand and take into account the needs of all consumers – through evidence, research and market analysis – to help set their priorities, develop and implement interventions, and assess their effectiveness.
- clearly articulate their expectations of businesses so that they design products and services that address the needs of vulnerable and low income consumers.

4. Help with energy bills

Advice charities continue to report high levels of people seeking help with fuel debts. The current support for low income and financially vulnerable consumers is not keeping enough households out of fuel debt and fuel poverty. The next government should include the following in a strategy to reduce fuel poverty and fuel debt:

- Commit the resources necessary to meet the statutory energy efficiency fuel poverty requirements in England, by acting on the Committee on Fuel Poverty's recommendation that the Treasury allocate around £1bn of funding from 2019-2021, and a further £1.8bn from 2022-2025, to ensure fuel poor households are improved to a minimum of: a) Band E by 2020, and b) Band D by 2025.
- Commit to the Clean Growth Strategy target to upgrade as many houses to EPC Band C by 2035 as possible, and for all fuel poor households, and as many rented homes as possible, to reach the same standard by 2030, ideally earlier.
- Approve the Committee on Fuel Poverty's recommendation to reduce the costs associated with energy efficiency programmes by testing new data sharing powers enabled by the Digital Economies Act by piloting how new data sharing powers can be implemented to better target assistance.
- Commit to extending the Warm Home Discount past 2021, and build on previously proposed reforms to the Warm Home Discount to better target those most at risk of fuel poverty, using data sharing to promote and design the scheme. Our preferred

course of action would be to provide an automatic rebate to all households in the Core and mandatory Broader group.

5. Energy VAT tax relief

Schemes exist that allow certain organisations a reduction in VAT charges on energy bills. Such organisations include charities operating in non-business activities which use a “relevant residential building”, for example, as a care home, hospice or student accommodation. We call on the next Government, upon leaving the European Union, to extend this scheme to low income households that are spending a certain percentage of their household income on energy. This can be identified through existing methods used to assess fuel poverty.

This will save low income consumers a significant proportion of their existing fuel spend and recognises the need for action in an area of essential services where people have faced large increases in expenditure.

6. Public Sector Debt Collection

Debt Advice agencies continue to highlight problems with the debt management practices of government departments and local government.

The National Audit office has highlighted the need for improvement in public sector debt collection. The House of Commons Treasury Committee found that local authority debts are often pursued over-zealously with routine recourse to bailiffs, and that central government can take an uncompromising approach to debt collection. The Committee concluded that the public sector should be leading by example in their treatment of the most financially vulnerable; but the current approach risks driving them into further difficulty.

We agree with the Commons Treasury Committee that ‘by bringing central government and local authority debt collection practices consistently into line with industry best practice, the Government has the power to make a significant difference to the burden of problem debt in a short space of time’.

Therefore we urge the next government to:

- Legislate to introduce binding fairness principles for public authority debt collection and enforcement
 - Introduce effective independent regulation of bailiffs collecting public debt.
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