

THE INEQUALITY OF POVERTY

EXPLORING THE LINK BETWEEN THE
POVERTY PREMIUM AND PROTECTED
CHARACTERISTICS

EXECUTIVE SUMMARY

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FEBRUARY 2021

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SUMMARY OF PROTECTED CHARACTERISTICS AND THE POVERTY PREMIUM

This report explores the connections between low income, poverty and protected characteristics, how these can shape the experience of poverty, and whether this can result in a similar inequality in terms of when and how poverty premiums are incurred.¹ **COVID-19 has thrown light on the link between insecure work, low incomes and protected characteristics**, with an opportunity for this link to be formally recognised. The pandemic, and the economic consequences look likely to throw many more people into poverty, and this poverty is falling hardest on those with protected characteristics.²

This targeted review of evidence examines the links between poverty and people with protected characteristics, focussing specifically on evidence relating to factors that can contribute to the poverty premium, together with secondary analysis of two consumer survey data sets examining low-income households and the poverty premium.

Our review found that there are some protected characteristics that are associated with an increased risk of poverty in the UK: **race, sex** (in the case of single mothers), and **disability**. In relation to age, while pensioner poverty has fallen over the last few decades – although it has started to rise again (Age UK, 2019) – **younger workers** are much more likely to be in poverty than other age groups. We also found that intersectionality plays a large role; **the more protected characteristics a person has, the more risk they bear**.

In terms of whether this translated to an increased likelihood of incurring poverty premiums, the evidence does suggest that certain groups with protected characteristics are more vulnerable, even compared with low-income households as a whole.

DRIVERS OF POVERTY

Sex

The higher levels of poverty among women (than men) stem primarily from two factors, which are themselves connected: women, on average, are paid less per hour, and work far fewer paid hours over a lifetime; and women lose income as a consequence of caring responsibilities. This pay gap may be compensated by male wages in couple households, however, this leaves single women; pensioners, and particularly single parents, very vulnerable to poverty-levels of income.

Women, particularly single mothers, are more reliant on benefits as a part of income, and consequently they are vulnerable to welfare cuts – they are also more likely to be eligible for means tested, rather than universal benefits, making it harder to get out of poverty.

For women with other protected characteristics, this intersectionalism heightens the impact of gendered poverty; for Black women, there is a higher chance of being a single parent, of working in low paid jobs, and Black, Pakistani and Bangladeshi households are more likely to have dependent children, and larger families, and are thus more vulnerable to cuts to Universal

¹ This report was written in September 2020 and published in February 2021.

² <https://www.resolutionfoundation.org/app/uploads/2020/05/The-effect-of-the-coronavirus-crisis-on-workers.pdf>

Credit. Women with disabilities are also lower paid on average, than those without disabilities, and disabled lone mothers are likely to lose out from welfare and benefits cuts as well.

Race

Black, Asian and minority ethnic poverty³ arises largely from the position in the labour market:

- Overall BAME people are more likely to work in low-paid occupations, or earn below the living wage.
- There are higher unemployment rates in some BAME groups.
- Black workers are more likely to have insecure work.

While rates of poverty are higher among all Black and minority ethnic groups than among the majority white population, there is often considerable variation both *between* and *within* groups

- Bangladeshi and Pakistani households have the highest rates of poverty among the BME households, and are most likely to be paid less than the living wage.
- Black households have the highest rate of unemployment.

Faith

There is relatively little research into the connection between faith and poverty, however, there was some evidence that Muslims are more likely to be in poverty, when all other factors including race are accounted for. As such, there is the attendant risk of vulnerability to financial services-related premiums, however there are conversely examples of faith organisations seeking to develop alternatives to market-based products which might help alleviate poverty premiums.

Age

Pensioner poverty has dropped dramatically over the last twenty years, and pensioners are less likely to be in poverty than the population as a whole. However, some pensioners are more likely to be in poverty than others – notably those with other protected characteristics:

- Asian or Black pensioners
- Single female pensioners
- Pensioners with disabilities.

However, young people (aged under 35) are most at risk of poverty, and certainly more so than previous generations at the same age:

- They are more likely to be in low-paid work
- Housing costs are higher for this age group than they have been previously.
- They are not accruing wealth via homeownership as previous generations did.

³ A number of terms are routinely used by government departments, public bodies and the media to refer to the collective ethnic minority population, most notably "Black and minority ethnic" (BME) and "Black, Asian and minority ethnic" (BAME). This review reflects the language and terminology originally used in the studies to which we refer. However, we fully recognise the importance of the heterogeneity within these terms.

Again, intersectionality plays a role: youth unemployment rates for young people from Black as well as Pakistani and Bangladeshi backgrounds were more than twice that for white, young people.

Disability

We found a very strong relationship between poverty and disability, regardless of which measure of poverty is used. Overall, almost half of working age adults in poverty have someone who is disabled in their households. The rate of mental health issues is far higher among those in poverty, either as a cause or a consequence. Compared with those with different protected characteristics, the poverty of those with disabilities is often related to the costs incurred for a disabled person or household to enjoy the same living standards as non-disabled people or households. Disability-related benefits are included in measures of net income, but are not offset to account for the additional costs incurred; in real terms; this means that many may appear to have sufficient income to lift them out of poverty, even though in reality this isn't the case.

THE POVERTY PREMIUM

Higher risk of poverty premium by protected characteristics (based on survey and evidence review)

	RACE	SEX (Lone parents)	AGE Under 35s	AGE 65+	DISABILITY
<i>Non-standard payment methods (energy)</i>	✓	✓	✓		✓
<i>Costly tariffs (energy)</i>			✓	[✓]*	
<i>Geographical based premium</i>	✓				
<i>Risk of underinsurance</i>	✓	✓	✓		✓
<i>High cost credit premium</i>		✓	✓		

* evidence on connection is weak

Energy poverty premiums

Poverty premiums related to **domestic energy** were more likely to be incurred in different ways by those with different protected characteristics. The survey data found:

- Lone parents were vulnerable to paying more through Pre-payment Meter (PPM) premiums.
- Those from BME households were more likely to pay more for energy through paying on receipt of bill, rather than by direct debit.
- Those with disabilities were more likely to pay by either of these methods than those without disabilities.
- Those under 35 had a higher likelihood of not having switched tariffs ever.

Insurance (and geographical) poverty premiums

Bangladeshi and Pakistani people, and Black people are disproportionately likely to live in deprived areas. This may impact on the cost of **insurance premiums**, as well as lead to a higher chance of **paying to access cash**. Lone parents were also more likely to pay to access cash.

However, based on the survey data, the risk of incurring **insurance-based poverty premiums** seems to be lower among people with protected characteristics, because **people from BAME groups, lone parents, and people with disabilities, particularly those with mental health issues, were less likely to hold any insurance**. Being uninsured may of course lead to worse detriment than paying over the odds. This **'going without'** is often the flip side of paying a poverty premium (Davies et al, 2016). It can signify a level of poverty or exclusion from the market that bars participation in even basic services and goods. This deprivation is not reflected in increased poverty premiums but needs to be accounted for. As it is difficult to measure, it is easily overlooked, but should be recognized as a feature of poverty as tangible as the poverty premium itself.

Credit based poverty premiums

High-cost credit poverty premiums are also more prevalent among some low-income households than others. The survey data found that lone parents and those under 35 were most likely to have used some form of high-cost credit, and there is wider evidence that those with mental health issues are also more likely to use high-cost credit. There is also some wider evidence that **Asian households were more likely to have reduced access to bank loans**, while **Black households were more likely to be excluded from the credit card market**.

COMPOUNDING FACTORS

Tenure

There was a clear link between poverty and renting as a tenure; this may have been more of a consequence of poverty, than a cause, but it was a clear compounding factor in the production of poverty premiums. We found higher likelihood of renting among those from BAME households (evidence review), young people (survey data), lone parents (survey data) and those with disabilities (survey data). In turn, those who were renting had a higher likelihood than homeowners of using high cost credit, of paying to access cash, of paying monthly for insurances, and of not switching energy tariffs.

Digital capability

As with tenure, there is a connection between lack of digital capability, poverty and certain protected characteristics. In the survey data, we found that those of pension age and above were more likely to lack digital capability. In turn, this could impact on 'getting the best deal' online: it was the key driver of switching behaviour to better energy tariffs in the survey data.

POLICY IMPLICATIONS

The role of housing tenure

The role of **housing tenure** in creating or facilitating poverty premiums is one that needs further exploration. People living in rented accommodation may have less control over their energy provider;⁴ the survey data found that those in social rental accommodation were more likely than other tenures to use PPMs. Renting may negatively impact credit scores⁵ affecting the cost and quality of credit they can access, as may multiple moves; and renters are more likely to live in deprived neighbourhoods. All of these may increase the likelihood of someone in poverty experiencing poverty premiums. The lack of financial support offered to tenants during the lockdown is a further example of the disparity between renters and homeowners. Neither private landlords, nor most housing associations are subject to the Public Sector Equality Duty (PSED), however. So while supporting tenants should be part of implementing the principles behind the PSED (for example, tenants should be able to access the best tariffs and payment methods in energy as easily as those who own their own home), currently there is little that can be done. However, regulation such as the Tenants Fee Act⁶ has helped reduce the costs of renting, and further thought should be given to ways in which regulation or business practice could reduce the poverty premium for tenants.

Payment methods

The way in which **non-standard payment methods** contribute to the creation of poverty premiums is already recognised.^{7,8} However, the reanalysis of the survey data finds that this impact is falling hardest on those with certain protected characteristics, even among low-income households as a group. In line with the Equality Act, those who provide basic services should aim to demonstrate that there is no inequality arising from the costs incurred by those with protected characteristics.

Insurance and risk assessment

This issue of inequality in **insurance** cover is also one that needs closer examination. Firstly, there appears to be an issue with underinsurance amongst many of those with protected characteristics. Possible barriers to access are already known,⁹ including unsuitable products, ineligible or refused cover even though eligible, or high prices. Further research or exploration is needed to understand which of these are the biggest barriers, and to which groups before a regulator can begin to implement policies that could enable those affected to have fair access to insurance.

⁴ Davies, S and Trend, L (2020). "The poverty premium: A customer perspective." Fair By Design

⁵ Credit scoring criteria are opaque and vary, however, unlike mortgage payments, rental payments do not improve your rating, and moving frequently can have a negative impact

⁶ <https://www.gov.uk/government/collections/tenant-fees-act#guidance>

⁷ Davies, S, Finney, A and Hartfree, Y (2016). "Paying to be poor Uncovering the scale and nature of the poverty premium".

⁸ Corfe, S and Keohane, N (2018) "Measuring the Poverty Premium". Social Market Foundation

⁹ <https://www.fca.org.uk/publication/occasional-papers/occasional-paper-17.pdf>

Secondly, existing concerns over the use of individualised assessment of risk¹⁰ may also be reflected in the inequality in **insurance premiums** experienced by some with protected characteristics. Many non-white ethnic groups have a higher likelihood of living in more deprived areas, and this factor increases the cost of motor insurance enormously¹¹ and the differential is increasing over time.¹² While the issue of race discrimination has already been raised with the FCA,¹³ further discussion may be needed on the extent to which area-based pricing is inherently unfair. The Flood Re initiative¹⁴ demonstrates the possibilities in removing the cost of individualised risk and spreading it across a wider pool; if those with certain protected characteristics are unduly impacted by underwriting practices, then implementing these sort of changes should be a priority.

Intersectional disadvantage

Finally, we have looked at each group individually to better understand how their particular experience of poverty may lead to a higher incidence of one poverty premium or another. However, that so many of those who have protected characteristics have a higher chance of being in poverty suggests that broader discrimination and socio-economic circumstances are interwoven; **the impact of inequality almost inevitably leads to a higher likelihood of poverty and the poverty premium**. This is particularly noticeable for those who have intersectional characteristics, who are the most vulnerable to both poverty and poverty premiums.

REGULATORY RESPONSE

Attending to socio-economic equalities

Our findings, therefore, suggest that returning to the original intention of the Equality Act 2010¹⁵ – in the need to attend to socio-economic inequalities as much as personal ones – would help guide regulators, the Competition and Markets Authority, and other public bodies such as HM Treasury and the Department of Business, Energy and Industrial Strategy to act in a way that would help reduce the poverty premium for those who are covered by the act. The enforcement of Part One of the Equality Act (2010) along with Section 14 of the Act¹⁶, recognising intersectional disadvantage, would help to address many of the inequalities detailed above. In the absence of a legal obligation, however, there is no reason why regulators and public bodies cannot move towards respecting these principles regardless. In light of the inequality laid bare by COVID, this should be the opportunity to start taking measures to address this wherever possible.

¹⁰ <https://www.abi.org.uk/globalassets/sitecore/files/documents/publications/public/2015/a-brave-new-world/a-brave-new-world.pdf>

¹¹ Davies, S, Finney, A and Hartfree, Y (2016). "Paying to be poor Uncovering the scale and nature of the poverty premium."

¹² Davies, S and Trend, L (2020). "The poverty premium: A customer perspective." Fair By Design

¹³ <https://www.theguardian.com/money/2018/oct/31/insurance-regulator-look-possible-racial-bias-financial-conduct-authority>

¹⁴ <https://www.floodre.co.uk/>

¹⁵ Part 1 of the Equality Act required consideration to be given to the reduction socio-economic inequality, however, this was not enforced as part of the Act

¹⁶ Section 14 covered combined discrimination of two relevant protected characteristics but was also not enforced.

Using equality and impact assessments to promote equality

Those subject to the PSED, and indeed those outside it, should be encouraged to use Equality Impact Assessments to focus as much on *advancing equality of opportunity* as on *eliminating discrimination*. In order to do this effectively, data on protected characteristics needs to be collected and used in any impact assessment. To date, very little has been published by regulators on the impact of their policies on those with protected characteristics, and it is not clear whether this is because the data isn't collected or is collected but not used. Our report has found many gaps in data, and understanding the experience of those with protected characteristics should be built into any research principles, from both a qualitative and quantitative perspective.

Using data to improve equality

Better use of data could, in fact, be a tool for regulators to improve equality within the public sphere. While the recent controversy of OFQUAL's algorithm¹⁷ highlights the danger of using data without due consideration to matters of equality, data may be key to identifying and addressing inequalities of outcomes. Shah (2018) argued that, with consideration to ethics in data use, “[a] facet of accountability would be to monitor outcomes for differential impacts, with a particular focus upon the poorest or minority communities” (p.3). Data, and the intelligence from data, could be shared within public bodies with the aim of improving outcomes for all, with an expectation on regulators to demonstrate this impact.

¹⁷ <https://www.theguardian.com/education/2020/aug/21/ofqual-exams-algorithm-why-did-it-fail-make-grade-a-levels>



<https://pfrc.blogs.bristol.ac.uk/>
