Over the Odds

Next steps for dismantling the poverty premium

November 2022

The Centre for Social Justice

www.centreforsocialjustice.org.uk

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About the Centre for Social Justice

Established in 2004, the Centre for Social Justice is an independent think-tank that studies the root causes of Britain's social problems and addresses them by recommending practical, workable policy interventions. The CSJ's vision is to give people in the UK who are experiencing the worst multiple disadvantages and injustice every possible opportunity to reach their full potential.

The majority of the CSJ's work is organised around five "pathways to poverty", first identified in our ground-breaking 2007 report, Breakthrough Britain. These are: educational failure; family breakdown; economic dependency and worklessness; addiction to drugs and alcohol; and severe personal debt.

Since its inception, the CSJ has changed the landscape of our political discourse by putting social justice at the heart of British politics. This has led to a transformation in Government thinking and policy. For instance, in March 2013, the CSJ report It Happens Here shone a light on the horrific reality of human trafficking and modern slavery in the UK. As a direct result of this report, the Government passed the Modern Slavery Act 2015, one of the first pieces of legislation in the world to address slavery and trafficking in the 21st century.

Our research is informed by experts including prominent academics, practitioners and policy-makers. We also draw upon our CSJ Alliance, a unique group of charities, social enterprises and other grass-roots organisations that have a proven track-record of reversing social breakdown across the UK.

The social challenges facing Britain remain serious. In 2022 and beyond, we will continue to advance the cause of social justice so that more people can continue to fulfil their potential.

Acknowledgements

The CSJ would like to extend our thanks to the many individuals and organisations who shared their time, expertise, evidence, and feedback in the preparation of this report. This includes (but is not limited to): Opinium, Cheltenham Borough Homes, and FairByDesign.

We would like to give special thanks to Virgin Money, our partner who made this research possible.

We would also like to thank Opinium for partnering with us on the quantitative analysis in this research.

Disclaimer: the views and recommendations in this report are those of the CSJ and do not necessarily represent those of the individuals or organisations mentioned above.

Foreword

Each year, nearly seven million consumers pay more for the basic goods and services they need in their day to day lives, including many of my own constituents in Blackpool North and Cleveleys. Whether paying more for their insurance because they contribute monthly or facing extra costs to access their cash, those on the lowest incomes are paying over the odds to the tune of £478 a year.

But the cost of these premiums is more than just financial. By reducing low-income consumers' overall means, this situation reduces their ability to cope with the challenges life can bring, and unexpected events can cause a financial crisis that might otherwise be avoided. Instead, this poverty premium only serves to cement their place at the bottom of the ladder. A vicious cycle that saps aspiration and holds minds on the precarious present, not the brighter future.

Covering great breadth, this new report by the Centre for Social Justice highlights the progress that has been made in recent years to tackle these premiums and the costs incurred because of them. It offers a pragmatic series of next steps to make markets work better and promote fairer outcomes. To achieve results, this roadmap will require the contribution of both government and businesses.

In the context of the rising cost of living, this report is both timely and important. With increased pressure on our finances, it is more important than ever that consumers are treated fairly and can access the best deals. Yet digital exclusion continues to mean that some of us find it more difficult to engage in the market and tackling this will be key to sustainably reducing premiums.

But this will not matter if the market is unable to provide suitable products at the right price. Insurance markets should show that consumers are being priced according to their risk and they should explore ways in partnership with regulators and others to reduce barriers to the creation of basic products that can offer protection to those currently excluded. The Financial Inclusion Policy Forum would be a great place to start this conversation and industry has a proven track record of tackling poverty premiums, notably the steps being taken to ensure access to cash.

I welcome this report and its contribution to the conversation around tackling the poverty premium and wish it every success.

Paul Maynard
MP for Blackpool North and Cleveleys

Foreword

The rising cost of living is affecting everyone, but it is those at the sharpest end of the wedge who are finding it increasingly difficult to make ends meet, particularly those paying the Poverty Premium.

The Poverty Premium is the extra cost that those on the lowest incomes pay for essential services such as energy, insurance and credit, and cost a household on average an extra £490 a year. As a bank with a clear Purpose of Making You Happier About Money, Virgin Money has set the ambitious goal of eradicating the Poverty Premium from our customer base by 2030.

We are delighted to have worked in partnership with the Centre for Social Justice to deliver a powerful report that highlights the challenge of the cost of living on those paying the Poverty Premium.

While millions of households are experiencing financial difficulty for the first time, those paying the Poverty Premium are finding it even harder to get by. Shockingly, this research has found that almost one in three (29%) people are already skipping meals to pay their bills.

Virgin Money is working in a variety of ways to support customers and colleagues impacted both by the cost-of-living crisis and Poverty Premium. Where we can, we are focusing on maximising incomes. That means paying our colleagues more to help them navigate the rising cost of living; providing advice and guidance on money matters through our new cost of living hub; and working with the DWP and Turn2us on a campaign to help people access the benefits they are entitled to.

The report makes a series of important recommendations that we will be using to further our own work, but as the research highlights, the Poverty Premium does not just exist in one sector, it is present in nearly every corner of the UK economy.

At Virgin Money, we believe that real change can only come from a collective effort between policy makers and businesses, working together to end these punitive Premia. We hope that this report will stir more businesses in more sectors into action and deliver tangible change for those in the greatest financial difficulty.

The cost-of-living crisis poses a huge challenge to households, particularly those on the lowest incomes. If industry and policy makers can unite to tackle just a handful of the issues highlighted in this report, it will go a long way to helping those struggling the most to keep financially afloat in 2023.

David Duffy
CEO of Virgin Money

Executive Summary

Across Britain, consumers are cutting back in the face of a surging cost of living. With inflation at 11 per cent, the Office for Budget Responsibility predicts that living standards will decline by 7 per cent over the next two years and our material lives will worsen.

Consumers will find themselves paying more for goods and services and, in some cases, volatile incomes and increased uncertainty will mean they struggle to satisfy affordability requirements they once thought viable.

Yet some consumers already find themselves starting from behind, paying more for basic goods and services due to the way the market interacts with their choices, needs, and wants. The limited financial means of consumers on low incomes reduces their overall economic flexibility and creates more costly choices, which, in turn, serves to reduce their overall means. This cycle of paying over the odds makes up the poverty premium.

We estimate that nearly seven million people in Great Britain are paying multiple poverty premiums – this is where low-income households pay more than those on higher incomes to access essential products and services, such as insurance, credit, energy, and food. The latest estimates suggest, these premiums cost about £478 per year, sapping away greater proportions of incomes and reducing the overall living standards of those on low incomes.[1]

Table 1. Common examples of the poverty premium

• Using a pre-payment meter for energy
• Paying on receipt of a bill rather than standard billing methods
• Using high-cost credit
• Paying for insurance monthly
• Being charged more for insurance due to the area in which you live
• Paying money to access cash
• Shopping in smaller shops

But the cost of these premiums is more than just financial. By reducing low-income consumers' overall means, these premiums are responsible for decreasing their ability to access the basic building blocks needed to build a strong foundation from which to build. Without this foundation, a focus on a brighter, long-term future is more difficult to achieve and economic potential is left unlocked.

In this report, we show which premiums consumers report paying and how they are reacting to the increased cost of living. Throughout we consistently find that those paying premiums are facing tougher choices and more severe consequences. From considering withholding their energy payments, to borrowing more credit for essentials, it is those on the lowest incomes who are hit the hardest.

1 Personal Finance Research Centre, *Mapping the poverty premium in Britain*, 2022.

Tackling Poverty Premiums

With considerable progress made in recent years, tackling the poverty premium must remain a consistent focus of greater attention from both government and businesses, for it cannot be tackled by one alone.

Where consumers are achieving fair market outcomes, a question of social policy arises and must be answered by government, but where fair outcomes are not forthcoming, regulatory levers may be appropriate. Together, business and government can determine the dividing line.

In the course of this research, we have consulted across a range of sectors to inform pragmatic and practical proposals to begin dismantling and alleviating the poverty premium as well as helping to ease the cost of living. The report contains 22 recommendations which cover a range of sectors. Below, we summarise them as follows:

Reducing the cost of energy and other utilities

- **Tackling digital exclusion**

  Throughout our research, we have consistently found that being digitally excluded limits access to the market. This reduces consumers' ability to search for deals competitively, access the best prices, and keep abreast of changes in a fast-paced market. An overarching recommendation we, make to government and firms across the sectors affected by the poverty premium is to focus on what they can do to support customers access their services digitally.

- **Seeking alternative ways to pay**

  We find that consumers on low incomes are more likely to pay in non-standard ways, such as through a pre-payment meter or upon receipt of a bill. Both tend to cost more than via direct debit. We recommend that energy firms explore ways to reduce the burden on those who do not pay via direct debit, alternative ways to pay

- **Increasing uptake of existing support**

  The Government has supported consumers with their energy bills via the Energy Price Guarantee and the Energy Bills Support Scheme at much cost. But this support is harder to access for some and only two-thirds of those with traditional pre-payment meters have redeemed their support. We recommend that energy firms should exceed their obligations to proactively reach out to customers and ensure they redeem the support they are eligible for.

  Beyond alleviating the poverty premium in energy, there is support available for consumers struggling with the cost of utilities, such as social tariffs for water and broadband. Digital exclusion also creates significant barriers to accessing the market and many customers do not take up the support they can access. We recommend that firms encourage the uptake of social tariffs amongst existing customers. We also recommend that broadband firms offer social tariffs to digitally excluded consumers who are not pre-existing customers when they begin claiming Universal Credit, an online welfare system.

Alleviating the increased price of food

- **Convening and spreading innovative programmes**

  Consumers on low incomes are more likely to remain within their locality and this leads them to regularly shop at smaller outlets of major supermarkets with higher prices than all consumers. They are also more likely to purchase in smaller quantities, also paying more. We recommend that the Government's Cost of Living Tsar convene supermarkets of all sizes to encourage new programmes to reduce food costs, such as placing cheaper, healthier food in smaller stores.

Supporting consumers to access cheaper financial services

- **Ensuring better market outcomes and expanding insurance products**

  Low-income consumers are known to pay more for insurance because of where they live, how they pay, and for their loyalty. Where markets work well, consumers are priced at the risk associated with their circumstances and ameliorating uneven outcomes is a question for social policy. We recommend that the Financial Conduct Authority undertakes work to understand the effectiveness of risk pricing in the insurance market.

  Consumers on low incomes are also less likely to possess home insurance and vehicle insurance despite wanting it because they cannot afford the premiums. There is, therefore, a gap in the market where consumers are left unprotected and more likely to be subject to crime. We recommend that the Financial Conduct Authority understand the size of this market gap and work with firms to understand what regulatory barriers exist to the creation of simple, basic products to reduce financial exclusion.

- **Passing on consumers to credit and support services**

  Not all consumers can be serviced by credit providers and the market is split into many segments. We recommend that creditors should help consumers access credit and debt advice by integrating a pass-on system if they are declined.

- **Increasing the provision of affordable credit**

  Where low-income consumers access credit, it is more likely to be high cost. In previous reports, we have proposed an increase in the provision of affordable credit, but this cannot be done by the government alone. We recommend that banks and other large-scale financial institutions explore partnerships with financial inclusion bodies, such as Fair4All Finance, to improve access to affordable credit.

- **Ensure access to free cash**

  The Financial Services and Markets Bill will ensure access to cash services, but it will not ensure access to *free* cash services. We recommend that HM Treasury builds on its welcome work to support cash access by recognising the importance of free cash in its forthcoming policy statement

Ameliorating an exacting social cost

- **Expediting the rollout of support for acute difficulties.**

  Those paying poverty premiums are consistently found to be more likely to suffer an exacting social cost in response to the cost-of-living crisis, including using addictive substances. We recommend that the Government continue to implement its new addiction strategy and implement the recommendations of the Dame Carol Black Report and expedite its review of the Gambling Act to update consumer protections

Introduction

The UK, along with much of the world, finds itself in the midst of a financial storm. Soaring inflation – now at 11 per cent – is devaluing the pounds in our pockets and estimates suggest that it may not reach its 2 per cent target until 2027.[2]

Energy bills, a substantial cause of high inflation, have reached an average of £2,500 a year, a significant rise on their pre-crisis totals, and the Bank of England expects Britain to fall into the longest recession ever.[3] The situation is clearly challenging.

Increased spending commitments on essentials has necessitated changes in consumer behaviour and intervention by the Government. The Energy Price Guarantee and the Energy Bills Support Scheme has thrown a ring around consumers, the latter targeting the most vulnerable consumers.[4]

Consumers are also adjusting by changing their spendings habits by cutting back. Over half of consumers say that they have started using less fuel, while over one third have spent less on food shopping and essentials.[5] Consumers are also drawing on their savings and taking more credit. But we know that it is the poorest households that feel these difficulties most acutely and the evidence bears this out. Inflation is higher for those on the lowest incomes because they spend a greater proportion of their income on essentials, such as food and energy.

Yet some consumers already find themselves starting from behind, paying more for basic goods and services due to the way the market interacts with their choices, needs, and wants. The limited financial means of consumers on low incomes reduces their overall economic flexibility and creates more costly choices, which, in turn, serves to reduce their overall means. This cycle of paying over the odds makes up the poverty premium.

The poverty premium is where low-income households pay more for basic goods and services due to a range of demand and supply side factors.[6] This may include not paying for energy by direct debit. Supply side costs reflect the additional costs of servicing those on low incomes, such as greater insurance risk premiums due to the place in which someone lives.

In this paper, we seek to understand the state of the poverty premium today and understand what actions consumers are taking in response to the increased cost of living. We propose practical solutions that businesses and government can take to support those struggling with the cost of living and begin dismantling existing premiums, for they cannot be tackled by one alone. This follows on from our recommendations to government found in *On Target: Protecting vulnerable households from the inflation crisis.*[7]

2 Office for Budget Responsibility, *Economic and Fiscal Outlook*, November 2022.

3 BBC News, *Bank of England expects UK to fall into longest ever recession*, 3rd November 2022.

4 Resolution Foundation, *A Blank Cheque: An analysis of the new cap on energy prices*, September 2022.

5 Office for National Statistics, *What actions are people taking because of the rising cost of living?*, 5th August 2022.

6 Social Market Foundation, *Measuring the Poverty Premium*, 2018.

7 Centre for Social Justice, *On Target: Protecting vulnerable households from the inflation crisis*, September 2022.

Premium Usage

The poverty premium is where low-income households pay more for basic goods and services due to a range of demand and supply side factors, some voluntary, some imposed.[8]

Demand side premiums often relate to income constraints and the associated limited financial resilience. Where consumers possess limited incomes, they may find it difficult to pay for goods and services in large lump sums and place an emphasis on tight budgeting control, prompting choices that cost more. One example of this is where consumers who use small sums of credit to meet their outgoings resort to high-cost credit. Paper bills are another example, where companies can charge customers small sums to receive paper bills that they wish to receive for budgeting.[9]

64%
of adults in low-income households pay at least two poverty premiums

Nearly 7million
adults in Great Britain pay at least two poverty premiums

Supply side premiums are often made up by the increased cost of serving low-income consumers. Common examples include the increased cost of collections where consumers pay in smaller, more frequent instalments, the cost of issuing paper bills, and the greater risk involved.[10] Supply and demand side premiums can often overlap.

We estimate that 82 per cent of households with a household income of 60 per cent of the median income are affected by at least one premium, while 64 per cent were affected by at least two – equivalent to about seven million people.[11] These premiums exert extra pressure on households' financial positions and demonstrate a cumulative effect of overlapping additional costs.

Below, we map out which premiums we find consumers paying for.

Table 2. Premiums paid for by low-income consumers pay[12]

39% Receives a paper bill for utilities	**33%** Use pre-payment meter or pay on receipt of a bill for electricity
38% Uses a cash machine that charges for using them	**29%** Use a pre-payment meter or pay on receipt of a bill for gas
42% Paying for a form of insurance monthly	**27%** Have insurance for specific appliances
35% Use high-cost credit, such as mail order, unarranged overdraft, payday loan, pawnbroking loan, in-person loans etc	**18%** Use a local corner shop or a small store of a chain supermarket

Source: CSJ Analysis of Opinium Polling

8 Bristol University, *Paying to be Poor*

9 *Ibid.*

10 *Ibid*

11 For our methodology, see Box 1.

12 For our methodology, see Box 1.

Box 1: A note on methodology

To understand the presence of premiums across Great Britain, we conducted a poll of 4,000 GB adults between the 24th and 26th August 2022. The results were weighted to be nationally and politically representative.

As previously noted above, premiums result where low-income households pay more for basic goods and services. To understand household incomes, we used income data from the survey to calculate an equivalised household income and assigned those with an income of 60 per cent or less of the median income to the premiums module.

While we have measured the presence of standard premiums across Great Britain, the aim of this research was not to re-conceptualise the poverty premium itself but understand what actions people who pay premiums are taking to deal with the cost of living and how these compare to adults across the country. We therefore asked further questions of all consumers about their response to increased living pressures.

Tackling Premiums and easing the cost of living

In addition to seeking to understand the presence of premiums today, we wanted to understand how people who pay premiums are reacting to the increased pressure on the cost of living and how this differs from all consumers.

Below we look beneath the surface and delve into greater detail about a number of premiums and the actions that consumers are taking to ease their cost of living in the respective area. In each section, we make a number of recommendations to support consumers and to begin dismantling existing premiums.

Digital Exclusion

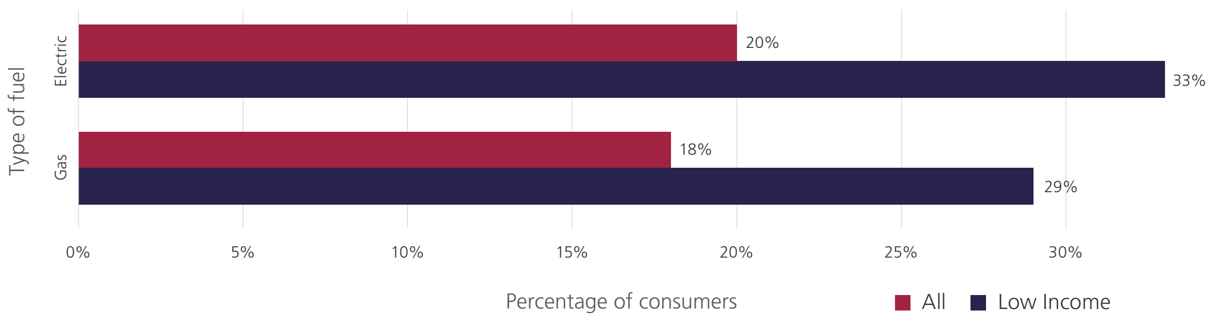
A consistent theme that emerges throughout our research is the role played by digital exclusion in preventing consumers from having greater access to the market and the better deals that come with said access. Examples here include being less likely to shop around for insurance products or the best energy deals, to having an insufficient data profile that decreases the likelihood of being serviced by creditors.[13]

Across the UK, digital exclusion is more prevalent amongst those on the lowest incomes. A fifth of adults with a household income below £15,000 are digitally excluded compared to just 1 per cent of those with an income of £50,000+.[14] This exclusion serves to decrease the ability of low-income households to access the best deals and prices, resulting in premiums. An overarching recommendation we therefore make to government and firms across the sectors affected by the poverty premium is to focus on what they can do to support customers access their services digitally.

The Increasing Cost of Energy

As it stands, the Energy Price Guarantee means the average household will pay about £2,500 a year for their energy bills. In April, this will increase to £3,000. While the current package is a considerable reduction on the amount consumers expected to pay, it still represents a significant increase on previous average tariffs, almost double the 2021/22 winter tariff.[15] As a result, there are now more than two million households behind on their electricity bills and consumers are cutting back on their energy usage. This is particularly true for those in deprived areas.[16]

Figure 1: Those paying a poverty premium are considerably more likely to use a pre-payment meter or pay in receipt of a bill



Source: CSJ Analysis of Opinium Polling

13 Financial Conduct Authority, London Economics, YouGov, Kudos Research, General Insurance Pricing Practices, October 2019.

14 Financial Conduct Authority, Financial Lives Survey 2020.

15 House of Commons Library, *Domestic energy prices*, 28th September 2022.

16 Office for National Statistics, *What actions are people taking because of the rising cost of living*, 5th August 2022; Credit Strategy, *More than two million households in debt on their electricity bills*, 24th October 2022.

In recent years, there has been considerable innovation and change to reduce premiums in the domestic energy sector, including the pre-payment meter cap, safeguard tariff, and a clear indication by the Competitions and Markets Authority that 'too much has been asked and expected of consumers' where switching is concerned.[17] Despite this, low-income consumers are known to pay more for their energy due to standing charges increasing the overall cost per unit used, and premiums exist where consumers pay on receipt of a bill (not by direct debit), and, despite improvements in the comparative cost in recent years, the associated additional costs of a pre-payment meter.[18]

In our analysis, we find that 33 per cent of those on low incomes were either using a pre-payment meter or paying in receipt of a bill for their electricity, significantly higher than all consumers, and similar is true for gas.

It is these consumers who are also facing the toughest choices. Those paying a poverty premium are more likely to say they are considering withholding payment for their energy bill. 22 per cent of consumers who pay at least one premium say that they are considering withholding payment for their energy bills, rising to 25 per cent of those who pay at least two premiums, compared to 11 per cent of all consumers.

In a period of increased energy costs, the Government has already extended considerable financial support to ease the cost of living via the Energy Price Guarantee and the Energy Bills Support Scheme (EBSS) at great cost. But that support is harder to access for some. Those customers using traditional pre-payment meters must redeem the support vouchers (which they are given via the EBSS) within 90 days rather than have the support automatically deducted from their bills, but thus far many have not done so.[19] Where customers do not redeem their voucher within the appropriate time, firms are required to reissue them with one should they request a voucher before the scheme closes on 30th June 2023.[20]

To ensure the maximum number of consumers receive support, we recommend that energy firms exceed their current requirements to contact customers to notify them of their voucher within the time frame of the scheme and continue to proactively reach out to customers. We also recommend that if customers have not redeemed their voucher after its expiry date, firms should continue to reach out and inform them that they can request a reissued voucher.

Further to this, it remains a possibility that some consumers may need additional support beyond the existing package, which is set to last until April 2023. To ensure that those consumers who are most in need of support receive it, we recommended targeted support for those most in need and we welcome the government's commitment to do this in the Autumn Statement by announcing further cost of living payments to those most in need. [21]

While government support in this period of heightened energy prices is welcomed, it does not directly address the costs associated with the poverty premium in energy itself, such as the cost of customer loyalty, paying upon receipt of a bill, and the use of a pre-payment meter.

Paying upon receipt of a bill is known to be more expensive than direct debit, with some estimates placing it as high as £200 a year.[22] This is due to small discounts being provided to those who pay by direct debit and some companies charging admin fees to those who pay monthly or quarterly. Paying by direct debit is cheaper for consumers and yet many choose not to do so. In order to decrease additional costs, we recommend that energy companies should seek to understand the barriers to paying by direct debit and explore how they can remove these barriers, including by exploring alternative ways to pay.

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17 CMA, *Tackling the Loyalty Penalty: Response to a Super-Complaint Made by the Citizens Advice on 28 September 2018*, 2018.

18 Ofgem, *Protecting energy consumers with prepayment meters: August 2020 decision*, 5th August 2020.

19 BBC News, *£400 energy support vouchers going unclaimed*, 31 October 2022.

20 UK Parliament, *Energy Bills Rebate: Questions for Department for Business, Energy, and Industrial Strategy, UN74956, tabled on 31 October 2022*.

21 Energy Voice, *Hunt announces review of energy price cap in April*, 17th October 2020; Centre for Social Justice, *On Target: Protecting vulnerable households from the inflation crisis*, September 2022.

22 Money Helper, *Thinking about cancelling your energy bill direct debit to only pay what you owe,* 26 August 2022; Money Saving Expert, *Energy direct debits help*, 3rd November 2022.

Pre-payment meters can also be a more expensive way to pay. This is because, despite some consumers finding them to be a useful way to budget, they are generally found to be more costly to serve. Due to increased energy costs, more consumers are being moved onto pre-payment meters and Ofgem has announced that some 60,000 households have been remotely switched to a pre-payment meter by their energy supplier over the last three months.[23] Moving customers to a pre-payment meter is always a last resort, but rapid moves can lead to difficult transitions. We recommend that Ofgem work with firms to provide customers with a timeline for their transition to pre-payment meters so that they can prepare their finances.

Where additional help is needed beyond tackling the poverty premium in domestic energy, are support schemes are in place to help consumers with their other utility costs. Increasing numbers of people - now over 850,000 people - receive support either via a water social tariff or the SureWater support scheme and some 150,000 people are supported with cheaper broadband worth about £140 a year.[24] But, despite these numbers, uptake remains low. As it stands, 69 per cent of those receiving state support are unaware of social tariffs explaining why just 3.5 per cent of those eligible for a broadband social tariff is currently in receipt of one one.[25]

Another factor here is likely to be digital exclusion. Consumers who cannot access the internet or ration internet usage are unlikely to come into contact with social tariff promotions. Additionally, many providers require those applying for a social tariff to be existing customers, further excluding those with no access at all.[26]

To encourage uptake amongst their existing customer base, internet providers should actively promote social tariffs amongst those eligible for support. For those customers with minimal access to the internet, the welfare system is likely to be the best means of access. Universal Credit is an online system and recipients are therefore expected to have some access to the internet. Where they do not, local broadband providers should commit to providing a social tariff, even if the recipient is not a pre-existing customer. This would help tackle digital exclusion and enable customers to access online services, such as price comparison websites, to seek out the best providers.

Finally, a considerable number of consumers do not claim all the support they are entitled to. Official statistics consistently show that pension credit has poor take up and other research suggests that the same is true for other benefits.[27] Banks and other financial services providers have a number of touch points with consumers, particularly where they are banked with them or applying for financial services. We recommend that firms use these opportunities to Guide customers towards maximising their income and accessing social tariffs.

Recommendation 1: Energy firms should exceed their current requirements to contact customers to notify them of their voucher within the time frame of the scheme and continue to proactively reach out to customers. Where customers have not redeemed their support after its expiry date, firms should continue to reach out and inform them that they can request a reissued voucher.

Recommendation 2: Energy companies should seek to reduce the burden of additional costs on customers who do not pay by direct debit. This should include research to achieve a better understanding of the barriers to direct debit and alternative ways to pay.

Recommendation 3: Ofgem should work with firms to provide customers with a timeline for their transition to pre-payment meter so that they can prepare their finances.

23 BBC News, *Energy firms remotely swap homes to prepay meters*, 9th October 2022.

24 CCW, *Water for All Report 2019-2020: Supplementary Data*; BBC News, *Millions of people should pay less for broadband, says watchdog*, 18th October 2022.

25 *Ibid*; Ofcom, *Affordability of Communications Services,* September.

26 Money Saving Expert, *You may be due cheap, long-term 'social tariffs'*, October 2022.

27 Gov.UK, *Eligible pensioners urged to apply for Pension Credit in new campaign*, 3rd April 2022; Citizens Advice, *Annual Report 2018/19*; Office for Budget Responsibility, *Welfare trends report*, May 2022.

Recommendation 4: All providers in the broadband industry should provide a social tariff and encourage uptake amongst eligible customers.

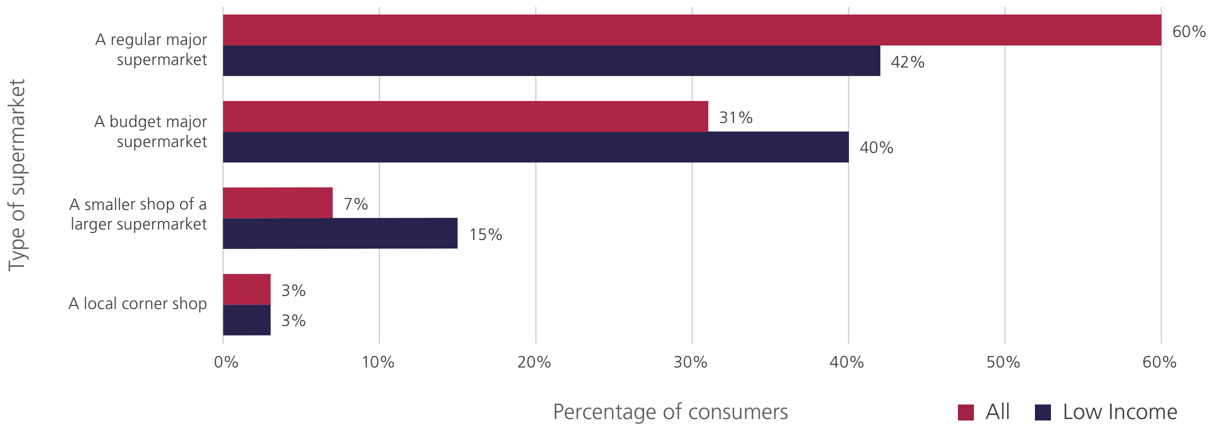
Recommendation 5: Broadband companies should provide a social tariff for digitally excluded universal credit recipients who are not pre-existing customers.

Recommendation 6: Firms with detailed information about their customers should guide customers towards income maximisation and social tariffs to reduce their cost of living.

Increasing Food Costs

In addition to an increase in energy costs, food has also been subject to considerable price increases. Research shows that food price inflation now stands at 16.2 per cent, a 45-year record. Previous estimates, calculated at a lower rate of inflation, suggested average household could see a £643 increase in their annual grocery bill to £5,265 a year.[28] This may now rise even further.

Figure 2: Those paying a poverty premium are more likely to use budget supermarkets and smaller supermarkets of major brands than all consumers



Source: CSJ Analysis of Opinium Polling

Further pressure is applied to those on low incomes who tend to buy smaller quantities of food, and therefore do not benefit from buying in bulk, and those who cannot access larger supermarkets thus paying premium prices.[29]

We find that low-income consumers are more likely to use smaller shops of a large supermarket chain than all consumers. Just over a sixth (15 per cent) of those paying a premium say that they usually shop in a small supermarket of a major retail brand compared to just 7 per cent of all consumers, raising the cost of their shopping.

In addition to swapping to own brands, some consumers are showing more serious signs of distress. 29 per cent of those paying at least one poverty premium say they are missing meals to be able to afford food and significant numbers say that they are putting food that they cannot afford back (16 per cent), and considering taking food without paying for it.[30] Here we find larger differences between all consumers and those paying premiums.

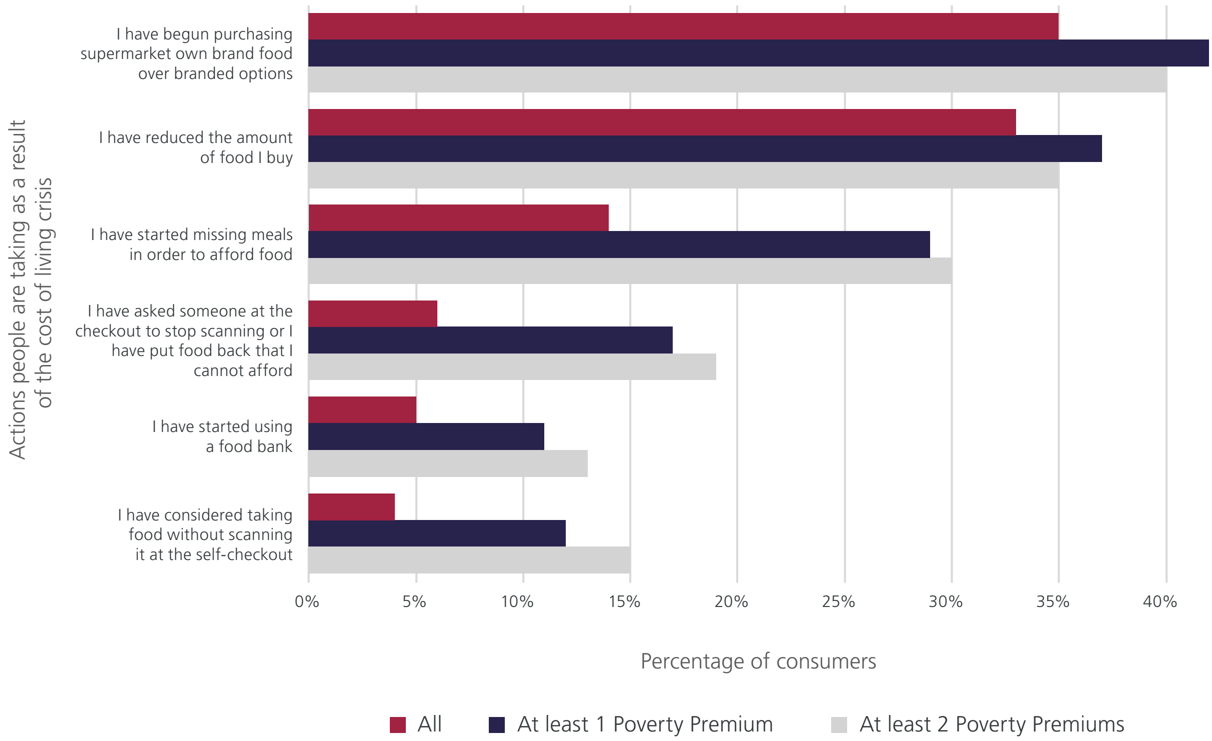
28 Office for National Statistics, Consumer Price Inflation, UK: September 2022, 19th October 2022. Kantar, UK grocery price inflation up again as shoppers turn to wonky fruit and veg to cut costs, 11th October 2022.

29 Personal Finance Research Centre, Paying to be Poor: Uncovering the scale and nature of the poverty premium, November 2016.

30 See figure 3 below.

Some businesses are already providing support in the form of partnering with food banks, providing discounts for customers, and offering no-interest loans for food.[31] We recommend that the Government's Cost of Living Tsar convene businesses to promote new measures and programmes to ease the cost of living, such as making cheaper foods more widely available in smaller stores.

Figure 3: Consumers are buying own brand items and reducing the amount of food they buy



Source: CSJ Analysis of Opinium Polling

With many of the negative consequences concentrated amongst those who are out of work, more should be done to encourage people into work and to care for those who cannot work. In *On Target*, we recommended targeted support for those on Universal Credit, and we continue to believe that Universal Credit should be uprated by inflation to protect those on the lowest incomes.[32] We welcome the Government's decision to do so in the Autumn Statement.[33]

But there are also more people on working-age benefits than there were before the pandemic and economic inactivity is on the rise. The total working age benefit caseload has risen by 23 per cent since the start of the pandemic and many of these still need supporting into work.[34] Universal Credit is designed to ensure that those who work more earn more via the taper rate and businesses should support new employees to undertake an upward hours trajectory into full time employment. This would put more money into the pockets of those who are currently unemployed or working part-time.

Recommendation 7: The Government's Cost of Living Business Tsar should convene small and large supermarkets and shops to promote innovative programmes to ease the cost of living, such as making cheaper foods available in smaller stores.

31 The Trussell Trust, Tesco Food Collection; Iceland, Iceland becomes first UK supermarket to offer special discount for over 60s, May 26th 2022; Which?, Iceland to offer interest-free loans: what you need to know, 21 August 2022.

32 The Centre for Social Justice, *On Target: Protecting vulnerable households from the inflation crisis*, September 2022.

33 HM Treasury, *Autumn Statement 2022*, November 2022.

34 Centre for Social Justice, *Feeling the Benefit: How Universal Support can help get Britain working*, October 2022.

Difficulty Accessing Financial Services

It is uncontroversial to say that those on lower incomes have more difficulty accessing financial services for a range of reasons, such as because they cannot satisfy affordability requirements or are deemed too risky to lend to. This tension is a means of protecting consumers from unnecessary and preventable harm that results from being sold unaffordable financial products.

That does not, however, mean that there is nothing we can do to support consumers access better, more affordable financial services that suit their needs and wants and this is an area in need of greater focus. One simple recommendation is to use the convening power of the Financial Inclusion Policy Forum to bring businesses, regulators, and policy experts together to focus on the poverty premium in financial services.

Recommendation 8: The Financial Inclusion Policy Forum should use its convening power to promote discussion about the poverty premium and other issues of financial inclusion.

Below, we focus on a number of financial products and services that are particularly related to premiums.

Insurance

General insurance products give customers protection where things go wrong and are therefore important for financial security.[35] Yet low-income customers tend to be charged higher premiums because of where they live, how they pay, and for their loyalty.[36]

In our analysis, we have focussed on both the desire for insurance and how it is paid for. We find differences in consumer take-up and preference for insurance, with those on lower incomes less likely to possess home contents insurance and more likely to say that they would like it but cannot afford it. 22 per cent of those on low incomes say that they would like home contents insurance but cannot afford it compared to just 10 per cent of all consumers.

Vehicle insurance shows a similar trend with 15 per cent and six per cent respectively. This suggests that a significant number of consumers are not currently being served because they cannot find suitable products that meet their affordability requirements. The consequences of not having insurance can be financially damaging, with previous work showing that the risk of vehicle-related theft and burglary is more common in deprived areas.[37] We therefore propose that firms continue to focus on creating low-cost products that are tailored to consumers who need them. This could include more basic products that are simple to understand and the creation of microinsurance products. We also recommend that firms work with the Financial Conduct Authority to highlight barriers to the creation of cheaper products that reduce financial exclusion in the insurance market.

Where low-income consumers do possess insurance, they are known to face a number of increased costs associated with where they live and how they pay. Risk pricing necessitates that some consumers pay more than others because of the increased risk they represent – this is a reality of the market. Where risk pricing is working effectively, the resulting increased cost is a fair market outcome and reducing that imbalance is a question of social policy. Where it is not, it is a regulatory matter. In order to propose effective policy solutions, this initial question must be determined and therefore we recommend that the FCA undertake work to understand the effectiveness of risk pricing in the current market.

35 Financial Conduct Authority, *Pricing practices in the retail general insurance sector: Household insurance*, October 2018; Financial Conduct Authority, *General Insurance Pricing Practices Market Study: Consultation on Handbook Changes*, September 2020.

36 Personal Finance Research Centre, *The Poverty Premium: A Customer Perspective*, November 2020.

37 Social Market Foundation, *Why are low income consumers paying for the cost of crime?*, April 2019.

Paying monthly (rather than annually) is also known to cost consumers more. In our analysis, we find that low-income consumers continue to be more likely to pay monthly rather than annually. This increases the cost of insurance for those on low incomes who cannot afford large payments.[38] As Figure 4 shows below, we find that lower income consumers continue to be more likely to pay for insurance monthly and therefore are more likely to pay a premium. Indeed, figures are higher for those affected by multiple premiums.

Finally, consumers have also been known to charged higher prices for their loyalty. Recent work by the Financial Conduct Authority has found that firms have often used more opaque pricing to identify customers who are more likely to renew and then increase prices for customers each time they renew.[39] This is known as 'price walking'.

To combat this, the FCA has taken a number of steps in recent years to offer increased protection to consumers. In 2018, the FCA ended the sale of extended warranty on Rent-to-Own goods at the point of sale. This allows consumers more time to consider purchasing extended warranty – an often expensive form of insurance.[40]In addition, in early 2022, the FCA implemented a ban on price walking requiring firms to offer renewal prices that are no greater than the equivalent new business price a firm would offer.[41] Despite this, there are still some concerns that customers are facing higher renewal prices, although the evidence is disputed.[42]

As previous research by the Financial Conduct Authority has shown, consumers with limited financial resilience, and thus likely to be paying a poverty premium, are considerably more likely to auto-renew their home and motor insurance without doing research and therefore are more likely to be at risk of price walking.[43] The same is true for those who are digitally excluded, where almost 3 in 10 of those who do not have online access auto-renew their home insurance compared to 12 per cent of all people.[44] To ensure this premium has ended, we therefore recommend that the Financial Conduct Authority carry out further work to ensure that price walking has ceased.

Recommendation 9: Insurance providers should have a renewed focus on creating simple, basic insurance products that are tailored to those on low incomes.

Recommendation 10: The FCA should seek to understand the effectiveness of risk pricing in the insurance market.

Recommendation 11: The Financial Conduct Authority should undertake work with firms to understand how many consumers are excluded from insurance products due to financial costs and what regulatory changes could be made to allow further innovation to reduce financial exclusion.

Recommendation 12: The Financial Conduct Authority should carry out further research to ensure price walking has ceased.

38 Institute and Faculty of Actuaries, FairByDesign, *The hidden risks of being poor: the poverty premium in insurance*, September 2021; Financial Conduct Authority, *General Insurance Pricing Practices Market Study: Consultation on Handbook Changes*, September 2020.

39 See footnote 35.

40 Financial Conduct Authority, *Rent-to-own and alternatives to high-cost-credit: Feedback on CP18/12 and consultation on a price cap*, November 2018.

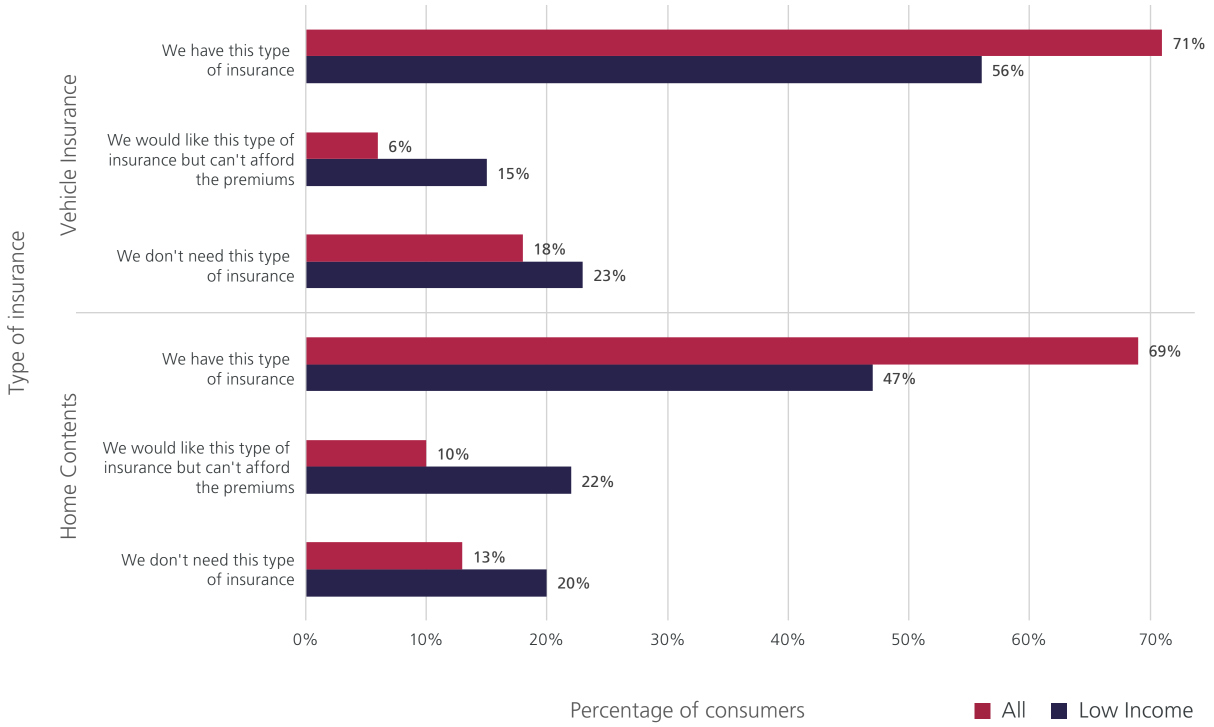
41 Financial Conduct Authority, *General Insurance Pricing Practices Market Study: Consultation on Handbook Changes*, September 2020.

42 Insurance Times, *Insureds facing higher renewal prices despite FCA's price walking ban – Which?*, 31 August 2022.

43 Financial Conduct Authority, London Economics, YouGov, and Kudos Research, *General Insurance Pricing Practices*.

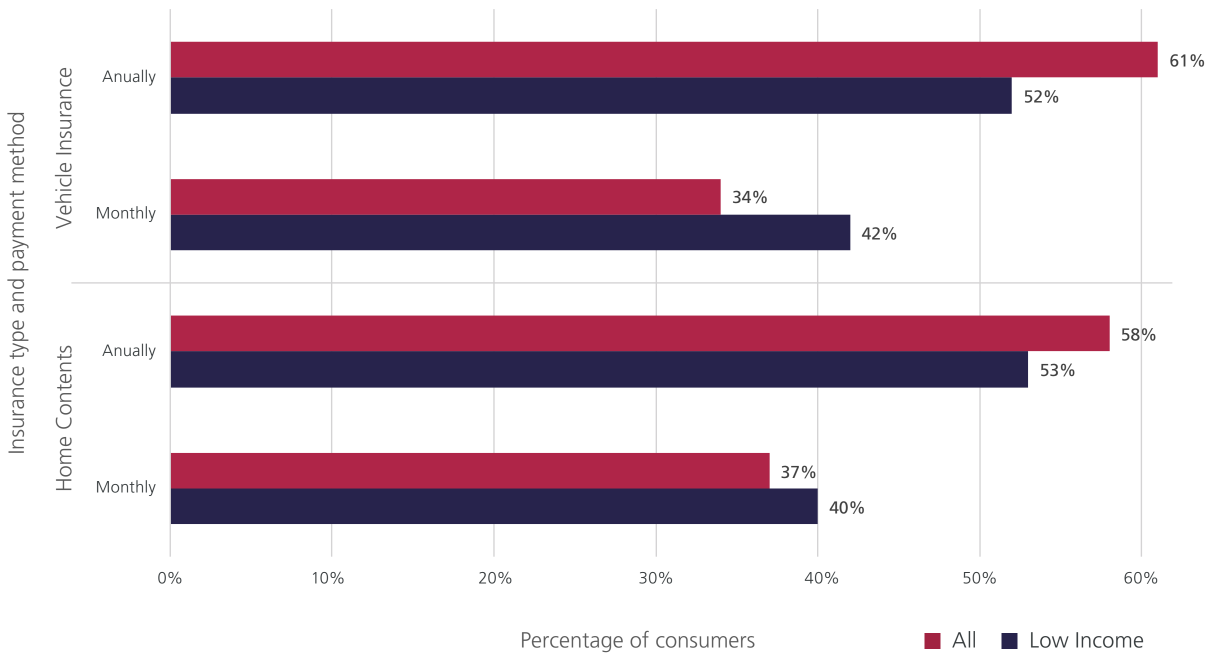
44 *Ibid*.

Figure 4: Low-income consumers are more likely to say that they would like insurance but cannot afford the premiums



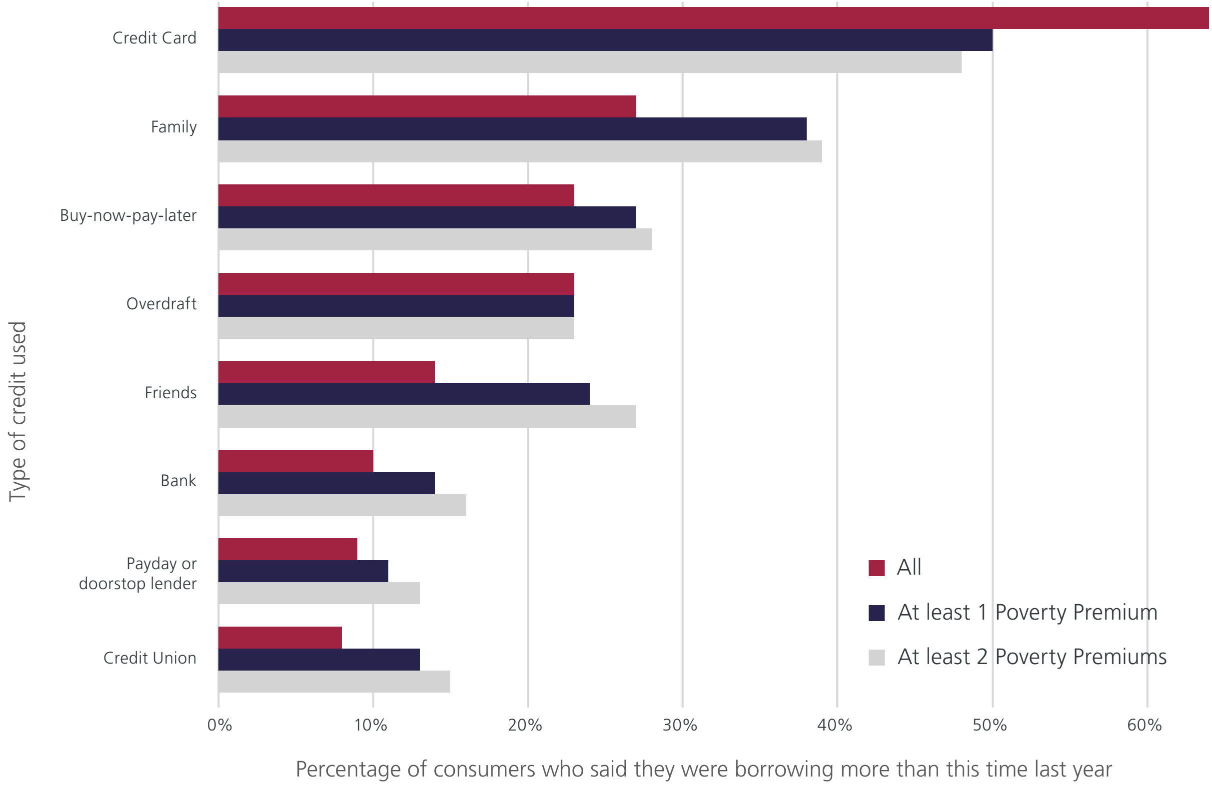
Source: CSJ Analysis of Opinium Polling

Figure 5: Low-income consumers are more likely to pay on a monthly basis for home and motor insurance



Source: CSJ Analysis of Opinium Polling

Figure 6: Those borrowing more than this time last year are more likely to use informal sources if they pay a poverty premium



Source: CSJ Analysis of Opinium Polling

High-Cost Credit

Where credit is available to those on lower incomes, it tends to be higher cost. This is because some consumers may struggle to satisfy affordability requirements and therefore be seen as a higher risk.[45] They may also borrow smaller amounts or pay in such a way that commands more intensive collections costs. The cost of serving them is therefore higher.

We find that 35 per cent of people on low incomes said that they had borrowed some form of high-cost credit in the last 12 months thus paying a premium compared to 17 per cent of all people. Payday loans, pawnbroking loans, and doorstep lenders all featured in this group.

We also found that those paying premiums were more likely to say that they are borrowing more money or using more credit than they usually would as a result of the cost-of-living pressures. 15 per cent of those who pay at least one premium said they were borrowing more, rising to 16 who paid two, compared to 9 per cent of all people. They are also more likely to borrow from informal or high-cost sources. Family, friends, payday, and doorstep lenders were all more likely to be used by those paying at least one premium than all people. Buy Now Pay Later was also a common option amongst all groups, but slightly higher amongst those paying premiums.

Typically, large scale financial institutions have shied away from offering high-cost consumer credit due to its limited profitability and the potential for reputational damage. Instead, it has been offered by "subprime" lenders who, due to a series of mis-selling scandals, have found themselves in retreat.[46] £1 billion less has been issued by high-cost short term credit and home collected credit in the two years to 2021, equivalent to around 3.25 million individual loans.[47]

45 Financial Conduct Authority, *The Woolard Review – A review of change and innovation in the unsecured market*, February 2021.

46 Financial Times, *Provident to close UK's oldest doorstep lending business*, May 2nd 2021.

47 Fair4AllFinance, *Blog: Illegal money lending and the changing credit market*, 5th October 2022; Financial Conduct Authority, *Product Sales Data*.

As high-cost firms disappear, alternatives must take their place. As we noted in *Swimming with Sharks*, we believe a healthy credit ecosystem that tailors products towards consumers is needed.[48] Where banks are unable to serve customers, we believe they have a responsibility to support them to access alternative services, be that alternative forms of credit in the market or debt advice.

As we proposed in *Swimming with Sharks*, we also believe that banks have a role to play in supporting the alternative lending sector. Credit unions require support with digital infrastructure and funding to merge, and CDFIs require patient capital to lend. To support these aims, we recommend that firms partner with financial inclusion bodies, such as Fair4All Finance, to support their aims. One such example of this is the decision from JPMorgan Chase to commit £1.2 million to Fair4AllFinance's No Interest Loans Scheme, a valuable addition to the social policy arsenal.[49] This will provide consumers with more low-cost, affordable credit options that can reduce the poverty premium, but it will not solve the lending gap alone. Market firms will also have a role to play.

Further to this, we support actions that banks can take to reduce barriers to credit. One common example is where County Court Judgements (CCJ) exist. A CCJ may be cancelled if it paid within a month and satisfied if it is paid after a month, although this will not remove it from a credit file.[50] Having a satisfied CCJ reduces a person's opportunity to receive credit, but it does improve their standing and ability to access less costly credit compared to an outstanding one. We recommend that creditors take it upon themselves to notify a debtor when their CCJ has been satisfied and, where low-income debtors are concerned, pay for a certificate of proof via the court.[51]

Finally, digital exclusion and a lack of financial education also plays a role in access to credit. Research shows that almost 320,000 people in the UK are classed as thin file with a limited data footprint and 1.7 million people have no credit reference agency data for the last 24 months.[52] This is compounded by continued lack of understanding which sees a third of Brits lacking the knowledge required to access their credit score.[53]

This limited engagement with the credit market dramatically reduces the ability of creditors to understand a consumer's profile and makes them more likely to be offered higher cost credit or no credit at all. To tackle this aspect of the poverty premium, firms should continue to use their touch points with clients to boost financial education and encourage engagement with digital infrastructure, such as open banking, where it is currently limited.

Recommendation 13: Creditors should integrate a pass on system that directs customers towards a reputable form of alternative credit, debt advice, and other relevant services when they are declined, as appropriate to the customer.

Recommendation 14: Banks should explore partnerships with Financial Inclusion bodies, such as Fair4All Finance, to support the provision of affordable credit to those on low incomes.

Recommendation 15: The Government should review the formal requirements for large scale financial institutions to support financial inclusion.

Recommendation 16: Creditors should take it upon themselves to report the satisfaction of a County Court Judgement to reduce barriers to credit for formerly delinquent customers.

48 Centre for Social Justice, *Swimming with Sharks: Tackling illegal money lending in England*, March 2022.

49 JPMorgan Chase, JPMorgan Chase Commits £1.2 Million to Fair4All Finance to expand No Interest Loan Scheme for people on low incomes.

50 GOV.UK, *County court judgements for debt*.

51 *Ibid*.

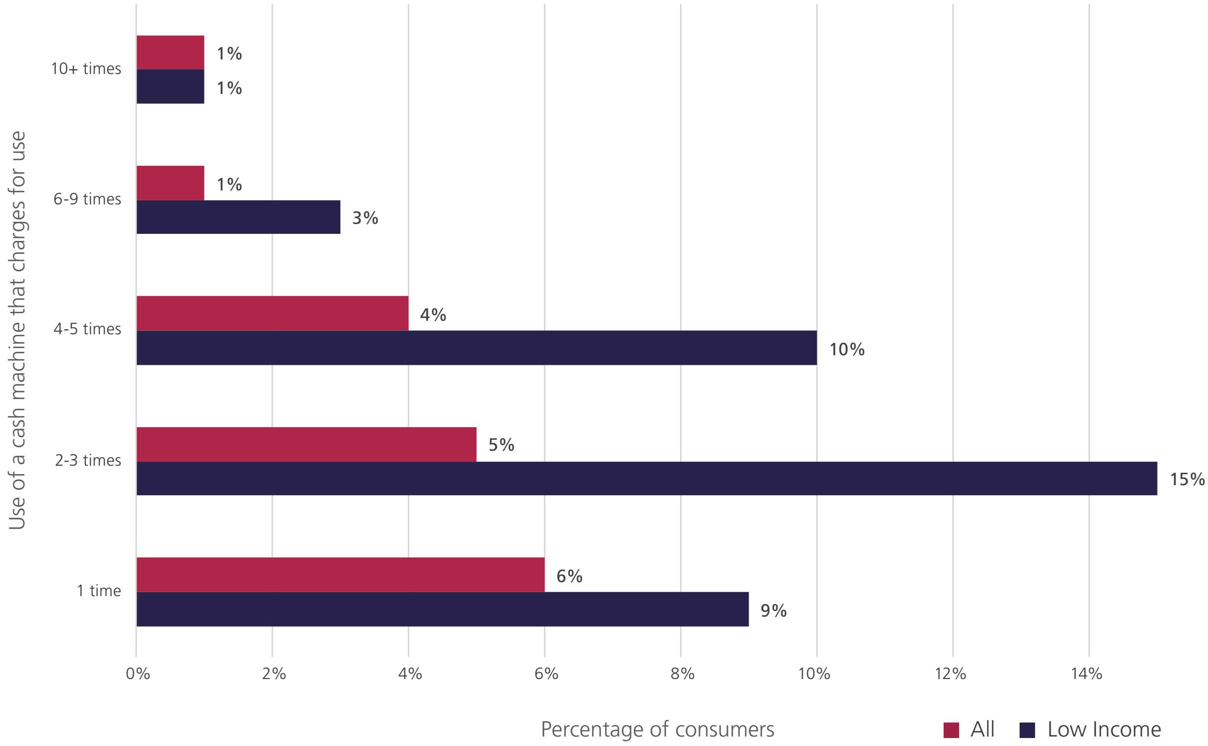
52 LexisNexis Risk Solutions, *Financial Inclusion: Up to date analysis of access to affordable financial services across the UK*, 2021.

53 Lowell, *Half of Brits have never checked their credit score*, 28 April 2021.

Access to Cash

In an increasingly digital world, accessing cash is becoming harder and more expensive. As cash use has declined, ATMs have closed or been converted from free-to-use to pay-to-use with the loss of over 10,000 free-to-use ATMs since 2016.[54]

Figure 7: Those paying premiums are more likely to be charged for using a cash machine in the last month



Source: CSJ Analysis of Opinium Polling

Yet some families choose to use cash because it helps them budget and keep a tighter control over their finances and this is particularly true amongst those on the lowest incomes.[55] According to the Financial Conduct Authority, 26 per cent of households with an income lower than £15,000 a year say that they rely on cash in their day to day lives and research shows that cash withdrawals are more likely to take place in more deprived areas.[56]

ATMs that charge are therefore one example of a demand premium, even if a small one, paid for by those on the lowest incomes. We found that 38 per cent of those on low incomes reported that they had used a cash machine that charged them for using it compared to 17 per cent of all consumers. We also found that many of those in our premiums group reported using a cash machine multiple times a month in order to access cash and were therefore facing multiple charges.

54 UK Finance, UK Payment Markets Summary 2019, July 2019; House of Commons Library, Statistics on access to cash, bank branches and ATMs, 25 July 2022.

55 Which?, More people could turn to cash to help budget as cost of living rises, 6th May 2022.

56 Financial Conduct Authority, Financial Lives Survey 2022; Personal Finance Research Centre, *Where to Withdraw? Mapping access to cash across the UK*, November 2020.

Since the warning from the Access to Cash Review and LINK that without support infrastructure will struggle, the Government has legislated to protect access to cash.[57] In 2021, the Financial Services Act enabled traders to offer cashback without purchase, and the Financial Services and Markets Bill will grant the Financial Conduct Authority the responsibility for ensuring there is a reasonable access to cash.[58] However, it does not guarantee reasonable access to *free* cash. As demonstrated by the access to cash pilots, consumers who need to withdraw small amounts but do not have access to a free ATM may pay to travel to one, thereby paying a poverty premium.[59]

There are two ways that this impasse may be resolved, namely by a policy statement by HM Treasury on cash deposit and withdrawal services, a requirement of the Financial Services and Markets Act, that stipulates expectations that access to cash be free or action by the FCA in accord with its obligations in the Financial Services and Markets Bill to ensure reasonable provision of cash services.[60] We recommend that both of these actions be taken to ensure the Treasury, the FCA, and the Payment Services Regulator are aligned in their expectations. We also recommend that more should be done to highlight existing free facilities.

Banking hubs offer another key component of supporting access to cash services and banking support via over-the-counter services and access to a community banker. Following the success of the first two banking hub pilots, the Access to Cash Action Group has, to date, announced that a further 27 locations will benefit from a shared Banking Hub. Further to this, the provisions in the Financial Services and Markets Bill for access to cash services will allow banking hubs to be formalised by the Financial Conduct Authority as part of its role its role in ensuring reasonable provision of cash access services. This will help provide privacy and security to customers in their banking transactions and is thus a welcome step. However, banking hubs also significantly benefit from the presence of community bankers who are part of current pilots and can support customers meet their banking needs by offering advice and guidance to customers who would otherwise find it difficult to access face to face services. We therefore recommend that banks continue their welcome provision of community bankers at current and future banking hubs.

Finally, access to cash itself is of little use if it cannot be spent in the community yet a sizeable proportion of consumers continue to report that they encounter shops that do not accept cash. According to the Bank of England, 35 per cent of consumers encounter a shop that does not accept cash and ,while this is down from 44 per cent in July 2021, it remains a significant increase from previous years.[61] The Access to Cash pilots suggested that where retailers had a limited ability to deposit cash privately and securely, they were less likely to accept cash payments. We therefore recommend that Banks and the Financial Conduct Authority should support the access to cash group's ambition to ensure adequate provision of deposit services for consumers and businesses, be this through improving existing services or including them in banking hubs.

Recommendation 17: HM Treasury should set out expectations on free access to cash in its forthcoming statement of policy concerning cash deposit and withdrawal services. In addition, the FCA and the PSA ensure reasonable access to free cash.

Recommendation 18: The Financial Conduct Authority should formalise the role of banking hubs via regulation once the Financial Services and Markets Bill has been passed.

Recommendation 19: Banks should continue to support the provision of community bankers at current and future banking hubs.

57 Access to Cash Review, *Cash system reaching a 'tipping point'*, 19th February 2020; GOV.UK, *New powers to protect access to cash*, 19th March 2022.

58 Legislation.gov.uk, *Financial Services Act 2021*; UK Parliament, *Financial Services and Markets Bill*.

59 *Ibid*.

60 *Ibid*.

61 Bank of England, *Knocked down during lockdown: the return of cash*, 14th October 2022.

An Exacting Social Cost

As the pressure continues to mount, an exacting social cost is paid by those with little to give. As we set out in our pathways, poverty is made up of both someone's financial position, but also many aspects of their social sphere. Worklessness, educational failure, family breakdown, addiction, problem debt, poor quality housing, and engagement with the criminal justice system all play a role.

Social breakdown is expensive for both those who deal with it in their daily lives and the nation at large. The cost of family breakdown is estimated by the Relationships Foundation to be £51 billion.[62] Reoffending costs £18 billion, and debt problems cost £8 billion.[63] Taken together these form part of Britain's social breakdown bill.

We find that those paying premiums are more likely to say they are suffering social consequences as a result of the cost-of-living crisis bringing them closer to these pathways.

Straining Relationships

As we show in *Why Family Matters*, an individual who experienced family breakdown before the age 18 (while controlling for age, gender, socio-economic grade, and ethnicity) is considerably more likely to experience adverse effects later on in life, such as homelessness, trouble with the police, alcoholism, and debt.[64] And while, under certain circumstances, transitions can lead to a reduction in stress, breakdown is often damaging.[65]

It is therefore worrying that we find a greater propensity to say that increased cost of living pressures are straining relationships with relatives or loved ones. 17 per cent of those paying at least one premium say this, rising to 18 per cent amongst those paying two or more premiums, compared to 10 per cent of all people. This is particularly worrying because arguments about money have been shown to be more recurrent because they do not have an obvious solution.[66] Where relationships break down, debt can result, putting people in a worse financial situation than they were before and exposing them to more premiums as a result.[67]

Banks, other creditors, and collectors have a role in reducing financial pressure by engaging effectively with customers in difficult positions. Research by StepChange shows that around a third of adults in financial difficulty are reluctant to ask their bank or credit firm for help because they are worried it would affect their credit record.[68] This is also true for 20 per cent of adults who delay seeking debt advice for this reason.[69] Where they do engage, debtors need clear solutions that give them confidence and build their trust in their creditor's ability to support them with their financial difficulties.

To support families, we recommend that firms review their communications with debtors and seek to provide a number of clear options to customers to help them engage and resolve their financial difficulties. This will help reduce stress and provide a clear solution to families in financial difficulty.

Recommendation 20: Creditors should support struggling families when they find themselves indebted by offering clear options and solutions to help them engage and resolve their financial difficulties.

62 Relationship Foundation, Cost of Family Failure Index, 2018

63 Ministry of Justice, Economic and social costs of reoffending, 2019; Step Change, Cutting the cost of problem debt, 2014.

64 Centre for Social Justice, *Why Family Matters: A comprehensive analysis of the consequences of family breakdown,* March 2019.

65 Centre for Social Justice, *Family Structure Still Matters*, August 2020. K Hadfield, M Amos, M Ungar, J Gosselin and L Ganong, (2018), *Do Changes to Family Structure Affect Child and Family Outcomes? A Systematic Review of the Instability Hypothesis*, Journal of Family Theory and Review, 10(19), pp. 87-110.

66 Lauren M. Papp, E. Mark Cummings, Marcie C. Goeke-Morey, *For Richer, for Poorer: Money as a Topic of Marital Conflict in the Home*, *Family Relations*, 58 pp. 91-103.

67 Relate, *In too deep: An investigation into debt and relationships*.

68 StepChange, *Falling behind to keep up: the credit safety net and problem debt*, January 2022.

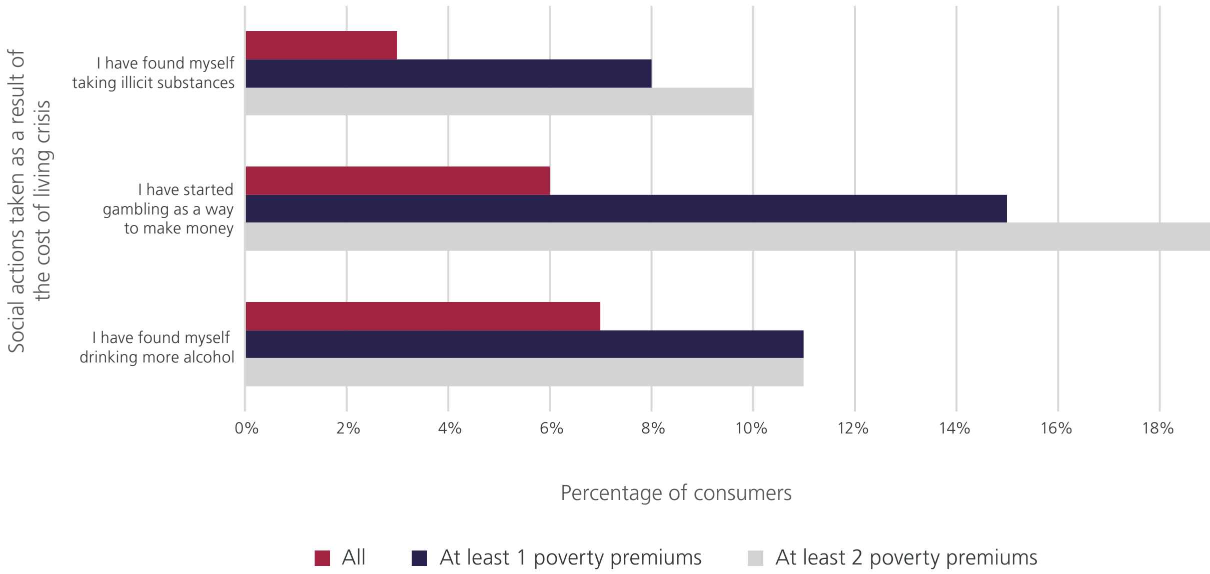
69 StepChange, *Mixed Messages: Why communications to people in financial difficulty need to offer a clearer, better route to help*, September 2022.

Increased Susceptibility to Addiction

Addiction is a human tragedy and one that particularly effects those on the lowest incomes. Drug and alcohol misuse is correlated with deprivation, and the geography of gambling has been shown to be associated with more deprived areas.[70]

We find similar results in both alcohol consumption and drug misuse.

Figure 8: Consumers paying premiums are more likely to say they are drinking more alcohol and taking illicit substances.



Source: CSJ Analysis of Opinium Polling

There are clearly no easy answers to difficulties faced by those increasingly turning to addictive substances. The Government has undertaken a number of welcome steps in recent years to support those suffering addiction, including the investment of almost £780 million for treatment.[71]

We recommend that the Government continue to implement that strategy and follow the recommendations set out in the review by Dame Carol Black and our own *Road to Recovery*. We also recommend that the Government finish its review of the Gambling Act to protect more people from gambling related harms.

Recommendation 21: The Government should continue to implement its new addiction and drugs strategy and implement the recommendations of the Dame Carol Black report.

Recommendation 22: The Government should expedite its review of the Gambling Act to take account of recent innovations in the market and update consumer protections.

70 Centre for Social Justice, *Road to Recovery: Addiction in our society – the case for reform*, August 2019. Personal Finance Research Centre, *The Geography of Gambling Premises in Britain*, 2021.

71 Gov.uk, *Largest ever increased in funding for drug treatment*, 6 December 2021.

Conclusion

As we show in this report, the poverty premium continues to mean that low-income households pay over the odds for basic goods and services. Our findings consistently show that those paying premiums are more likely to be facing the sharpest edges of the increased pressure and their digital exclusion appears to be a consistent feature in the premiums themselves. To address these premiums, we have proposed a number of recommendations for government, and firms to support consumers going forward.

List of recommendations

Recommendation 1: Energy firms should exceed their current requirements to contact customers to notify them of their voucher within the time frame of the scheme and continue to proactively reach out to customers. Where customers have not redeemed their support after its expiry date, firms should continue to reach out and inform them that they can request a reissued voucher.

Recommendation 2: Energy companies should seek to reduce the burden of additional costs on customers who do not pay by direct debit. This should include research to achieve a better understanding of the barriers to direct debit and alternative ways to pay.

Recommendation 3: Ofgem should work with firms to provide customers with a timeline for their transition to pre-payment meter so that they can prepare their finances.

Recommendation 4: All providers in the broadband industry should provide a social tariff and encourage uptake amongst eligible customers.

Recommendation 5: Broadband companies should provide a social tariff for digitally excluded universal credit recipients who are not pre-existing customers.

Recommendation 6: Firms with detailed information about their customers should guide customers towards income maximisation and social tariffs to reduce their cost of living.

Recommendation 7: The Government's Cost of Living Business Tsar should convene small and large supermarkets and shops to promote innovative programmes to ease the cost of living, such as making cheaper foods available in smaller stores.

Recommendation 8: The Financial Inclusion Policy Forum should use its convening power to promote discussion about the poverty premium and other issues of financial inclusion.

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Recommendation 19: Banks should continue to support the provision of community bankers at current and future banking hubs.

Recommendation 20: Creditors should support struggling families when they find themselves indebted by offering clear options and solutions to help them engage and resolve their financial difficulties.

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Over the Odds

Next steps for dismantling the poverty premium

November 2022

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