APPG meeting: evidence session on Fairer Markets 18th April 2018 9.30-11.30am Thatcher Room, Portcullis House

Officers present:

Neil Gray MP (Co-Chair)
Kevin Hollinrake MP (Co-Chair)
Baroness Lister (Vice-Chair)
Lord Bird (Vice-Chair)

Others present:

Miriam Brittenden	Office of Bishop of Durham/Church of England
Lucy Russell	Fair by Design - Barrow Cadbury
Laura Warren	Competition Markets Authority
Caroline Aliwell	Citizens Advice
John Ricketts	Office of Lord Bird
Carl Packman	Toynbee Hall
Wanda Wyporska	The Equality Trust
Louisa McGeehan	Child Poverty Action Group
Jane Ahrends	Child Poverty Action Group

Alison Garnham Child Poverty Action Group

Presentations from: **James Salmon, Investment Director, Big Issue Invest**
Morgan Wild, Policy Lead on Consumer Markets, Citizens Advice (Cit **A)**
Scott Corfe, Chief Economist, Social Market Foundation (SMF)

1 Neil Gray MP opened the meeting and invited speakers to give their presentations

2 James Salmon described the work of Big Issue Invest as raising responsible capital to invest in social enterprises and managing investment funds to improve the lives of the most disadvantaged. It has invested in Moneyline, Street UK and Fair For You CIC.

In 2017 the responsible personal lending market amounted to £22m lent to 55,000 to individuals, compared to the total market for high-cost, short term credit in excess of £1bn, and estimated conservatively at 300,000 loans per month. So while there are sustainable, ethically run, customer - focused responsible lenders, they are swamped in a market of well-funded privately-owned scale operators.

Big Issue Invest welcomes the Department for Digital, Culture, Media and Sport setting aside £55m of dormant assets to address financial inclusion and capability. The End High-Cost Credit Alliance has provided welcome momentum for improvements and Lord Bird's Private Members Bill, the Creditworthiness Assessment Bill, is changing the individual's relationship to the market giving them agency and choice, arguing that credit assessments should use data more intelligently, for example taking account of rental behaviour to improve access to more suitable credit.

Morgan Wild said Citizens Advice (CA) clients are five times more likely to be in poverty. CA sees the coalface issues with people experiencing high costs as a result of the poverty premium. Markets are often not servicing consumers' needs and need to be better regulated to take action to reduce the premium.

One of the biggest ways in which markets fail poorer consumers is through the loyalty penalty: poorer consumers are disproportionately less likely to be on the best deals – especially for energy. They are 30% more likely to be paying a loyalty penalty for energy, 20% more likely for insurance and 100% for broadband. The loyalty penalty amounts to a cost of £1,000 per annum across six essential markets. The lowest income consumers may lack access to online deals, may not be thinking as a consumer and therefore may not be aware that there is an option to switch provider, and so pay a loyalty penalty.

High-cost credit is a significant driver of the poverty premium and the second biggest issue for Citizens Advice clients. Doorstep loans and the rental market offering HP agreements for essential items (eg white goods) are not always bad for consumers but have a typical APR of between 60% and 1,500%. For consumers whose anticipated income fluctuates even slightly, those rates can create significant problems.

Sixty per cent of Citizens Advice clients are seeking a further loan to fund their rent-to-own commitments. Rent -to-own can be a lifeline but also can lead to a cycle of debts. Low-income consumers are 16 times more likely to rent-to-own. Citizens Advice would like to see a cap in this market (similar to the payday loans cap which means the total cost of repayments cannot exceed twice the amount of the loan). Government and regulators should not be afraid to intervene in consumers' interests.

Scott Corfe said there is scope to use policy levers to address the ways in which markets are deficient for low-income consumers. The Social Market Foundation has produced two reports with the Joseph Rowntree Foundation, one on measuring the poverty premium and one on eliminating it, especially in the energy market.

The poverty premium is the extra price low-income consumers pay, per unit, for services/goods. There is no official data or measure of the poverty premium and that has created a distorted debate on policy with the focus being on how to increase peoples' incomes rather than on how to reduce the cost of living and the poverty premium.
Energy is not the only part of the poverty premium – possibly we are over-focused on the energy market. There is also the insurance market, for example. A Bristol university study estimates the premium at £490 per annum, a substantial sum for low-income households.

The poverty premium consists in:

- The extra price low-income consumers can pay for accessing credit
- Billing methods – low income consumers are less likely to pay by direct debit
- Premiums related to where people live (eg home and car insurance). No one is talking about this premium because there is no data on it
- Food deserts – Which? found convenience stores charge a 7% premium
- Energy: low-income consumers are less likely to be on the best tariffs
- Pre –payment metres: low-income consumers more likely to use these
- ATM charges
- Telecomms: low-income consumers are less likely to be on the best deals
- Not being able to benefit from discounts associated with bulk-buying (eg with public transport, being restricted to a weekly ticket versus annual season ticket.)

We need to look at all of these areas to devise a measure of the premium. Government and regulators should produce an official measure of the premium and should get good data on it to track over time.

What policy levers could reduce the premium?

- Warm home discounts could be re-designed. There is low awareness of them currently and eligibility criteria varies across suppliers.
- A state energy supplier could produce more competition. That would not entail nationalisation but could provide low-income consumers with more confidence.
- An energy price cap should be a time-limited measure, not a permanent one.
- There should be automatic switching. Regulatory efforts to encourage consumers to switch supplier have not worked well. Regulators could introduce automatic switching, whereby consumers would be switched after, say, three years.
- Explore spreading the cost of extra charges for paper bills across all consumers (low-income consumers are more likely to use paper bills)
- The per-unit cost of pre-payment meters should be the same as other methods. A mandated future date could be introduced by which energy providers would be required to introduce new technology to reduce the extra costs they incur for servicing pre-payment meters.

Q & A session:

Q Baroness Lister welcomed the speakers' understanding that the poverty premium applies broadly - beyond the energy market - but asked whether that breadth makes measurement of the premium more difficult. How practical is a measure that spans such a range of areas?

She asked what discussions there had been with the Government and ONS - was there an openness to the idea?

In reply **Scott Corfe** said SMF spoke to the Competition Markets Authority
He said there would need to be a survey –and a willingness - to produce a measure but it was worth asking what data companies could provide now.

Q Baroness Lister asked if a single, composite measure was envisaged.

Scott Corfe said a number of data sources could be put together. A single measure would be ideal. This would involve a survey and a cost commitment from Government.

James Salmon said there is not a one-size-fits-all approach to measuring the poverty premium. In relation to affordable credit, trading standards could be set.

Morgan Wild said a national statistic for the poverty premium would be very good to have. But in practice lots of providers and regulators could be performing distributional analyses of pricing structures and how the poorest consumers fare.

Q Neil Gray MP asked Morgan Wild to what extend Citizens Advice could aggregate its data to inform a measure?

Morgan Wild answered that Citizens Advice data is good for identifying trends but Cit A has relatively less data on better-off consumers and population-wide data would be necessary. But Citizens Advice would be delighted to use its data to help inform any measure of the poverty premium.

Q Lord Bird asked Morgan Wild if Citizens Advice gave its clients a credit management direction?

Morgan Wild said Citizens Advice did not provide directional support but did signpost clients to better and more responsible lending.

Q Lord Bird commented that there is a tendency to omit the poor's agency, to look at the poor as passive and incapable of rising out of poverty. He asked how much profit the 'poverty premium industry' makes?

Scott Corfe said regulators have powers to access data on profitability.

Morgan Wild agreed. He said Citizens Advice debt advice sessions start with clients' ownership and agency, with advisers providing guidance on what decision clients make about debt and credit.

Q Lord Bird said poverty impacts on people's decision-making processes. He asked: what can we do about the predictability of failure once someone has slipped into poverty?

James Salmon said a lot of lenders operate towards the top of the FCA's loans price cap, have flawed underwriting methodologies, and do not take time to understand the need s of low-income consumers. Irresponsible lenders increase the premium because they cannot accurately predict the repayment capacities of low-income households. If there was a product underpinned by Government capital and stewardship, it would be possible to attract investment into the responsible lending market. There could also be a collective marketing tool (for eg a kitemark) for the responsible lending market to help challenge the functionality flaws in this market.

Q Baroness Lister asked speakers what role local authorities might have in mitigating the poverty premium. Nottingham and Islington have set up not-for-profit energy companies, for example. Is there scope for encouraging local authorities in this direction? Also, she asked, had the replacement of the social fund with local welfare assistance aggravated the poverty premium? For example, were people turning to rent-to-buy because local welfare assistance was not available to them?

Scott Corfe said state energy suppliers could be developed at a local authority level although a national system might have more marketing clout and cleaner messaging.

Morgan Wild said initiatives like Robin Hood Energy, in Nottingham, if they came from the devolved administrations, might be more sustainable than the current proliferation of energy suppliers since they would be in the market for the long term.

Q Baroness Lister asked whether the role of technology is both a threat and an opportunity in relation to the poverty premium.

Scott Corfe said technology is an opportunity for customers to have better information and for automatically switching customers on to better deals. But there is a risk that as firms have more and more data on consumers, price discrimination could increase if markets were left to their own devices.

Morgan Wild said automatic switching had big potential but 11% of the population do not have consistent access to the internet so it will be important that Government invests sufficient thought and funding in ensuring that opportunity to use technology-based services are evenly distributed across the population.

James Salmon said face-to-face visits to high street responsible lenders still work for some consumers and lenders but such lenders struggle to invest in technology, whereas Fair for You's customers are technology and web-enabled. Both models are needed.

Lucy Russell asked how those present could work together to reach a tipping point for the poverty premium? It was important to start with people's experiences – to hear from people who experience the poverty premium . Amplifying those experiences is what will bring change.

Neil Gray MP encouraged Ms Russell to submit written evidence.

Q Kevin Hollinrake MP asked what are the costs of dealing with low-income customers? Is there significant revenue attracted from that customer base? Does the Digital Economies Bill have potential for sharing data (on vulnerable customers?)

Q Neil Gray MP asked: Does there need to be some acknowledgement that there are extra costs in dealing with low-income customers? Are there other ways of picking up those costs?

Carl Packman said businesses participating in a nine-month Financial Health Fellowship course, run jointly by the Finance Innovation Lab and Toynbee Hall, did not see addressing the poverty premium as a mere bolt-on extra but as a way of achieving good practice.

Q Wanda Wyporska asked whether Citizens Advice had evidence of a link between the roll-out of universal credit and increased debt and on the impact of the gig economy. Is Citizens Advice data broken down by protected characteristics?

Morgan Wild answered that the data could be disaggregated by protected characteristic, that Citizens Advice observed a strong correlation between debt and universal credit: 200,000 people had come to Citizens Advice about problems they are having with universal credit. Recent Citizens Advice research reported that the design of universal credit could lead to lower payments for self-employed claimants with fluctuating incomes.

Q Neil Gray MP asked what a £55m investment in the responsible lending market could achieve?

James Salmon said such an investment would go a long way. If a capital solution was structured that could invest in responsible lending businesses, more capital could be leveraged in to them for investment in their internal capability. But for a scale operator to emerge, such businesses also need loan-book capital to enable them to grow their loan books and to invest in technology.

Q Kevin Hollinrake MP asked whether there was a role for peer-to-peer investment in responsible lenders.

Lord Bird commented that always going to Government [for investment] could slow things down.

Morgan Wild, commenting on price caps on high-cost credit, said the caps are not a panacea and a longer-term sustainable solution was needed to enable responsible lenders to out-compete other providers.

He said the average rent-to-own loan is £1,100 (400,000 consumers); the average doorstop loan is £455 (1m consumers).

Scott Corfe said a price cap does not really address the problems of the energy market which is relatively uncompetitive and switching rates are low. There is a risk that price caps could reduce switching rates because people could think 'I'm capped, I don't need to switch'.

Morgan Wild said new challenger firms welcome cap because they see it enables them to better compete.

Neil Gray MP thanked everybody and the meeting was drawn to a close.

Secretariat:
Dr Wanda Wyporska (The Equality Trust)
07837 909 418
wanda.wyporska@equalitytrust.org.uk

Jane Ahrends (CPAG)
07816 909 302
jahrends@cpag.org.uk