

Responsible finance providers are key to tackling the ‘poverty premium’

18.04.2018

The average cost of the ‘poverty premium’ in 2017 was £490 per household per year, according to [research by Bristol University](#). The poverty premium is when low income households pay more for essential goods and services. Bristol University estimate that low income households pay an additional £55.00 a year to access high cost credit and £9.00 a year to access money. These are costs that low-income households can’t afford.

The responsible finance sector plays a key role in helping to reduce the impact of the poverty premium on households across the UK.

Access to affordable credit from responsible finance providers helps people on low incomes, with no savings buffer, to avoid taking on high cost debt. A loan from a responsible finance provider can help people improve their creditworthiness by making regular payments. In addition, the wraparound support provided alongside the finance builds financial resilience and capability. In 2016 – 17 responsible finance providers lent £22 million to 55,348 individuals and helped customers deposit £3 million into savings schemes.

In 2017 the average interest rate in the sector was 136%. On a £500 loan this means that the cost of credit is £143. If you compare this with other lenders at the same point in time, a loan with the Provident would cost £280 and with Satsuma, £458. Responsible finance providers are also more transparent, so our customers know exactly how much they will have to pay back by the end of the loan. Their websites highlight how they compare to high cost lenders. For example in February 2018 for borrowing £400 over 52 weeks, you would have to repay £565 at 112.9% APR from responsible finance provider, [Five Lamps](#). The same amount borrowed from [the Provident](#) would require repayment of £749 at 299.3% APR.

Other high cost providers, for example in the rent to own sector, use different techniques to hide the true cost of borrowing from consumers. For example, [Brighthouse](#) inflates the cost of the product. For example a Beko washer/dryer on Brighthouse is £436, delivery charge of £55, and an APR of 69.9%. The same product is £300 at John Lewis.

So why don’t people then go to John Lewis or another reputable high street retailer? They are attracted to the easy-to-budget model, where purchases are priced in weekly, affordable payments (even if these stretch over a long period of time). Stores are often on high streets in poorer communities, making access easy.

There are now responsible alternatives to Brighthouse, for example [Fair For You](#), which helps people buy the household essentials they need while also improving customers’ credit score, a big reason why people often can’t use mainstream alternatives.



Many high street retailers don't offer a weekly payment option and many low income consumers have thin or poor credit files. This, combined with low and unstable incomes causes exclusion from mainstream credit products because of their higher risk. We know that despite their low credit score, many consumers can repay their debt without missing a payment. Responsible finance providers estimate that 60% of their customers never miss a loan repayment. Finding an alternative way to measure creditworthiness and building their credit score would enable these customers to access low cost credit and so avoid paying the poverty premium. Responsible Finance's [recent report](#) on this issue explains how this could happen.

Access to credit is just one issue alongside a range of other financial services that fail to offer affordable and appropriate products for people on low incomes. Access to insurance, savings schemes and bank accounts are also an issue. For example, in 2015 it was estimated that there were two million people in the UK without a bank account. As a consequence, it was estimated by the [Financial Inclusion Commission](#) that these people were incurring around £1,300 per year in additional costs as a result due to the inability to pay by direct debit.

Responsible finance providers, like [Scotcash](#) are tackling the poverty premium. It offers a gateway to affordable credit, helps people to save money and provides wrap around support to help people get back in control of their finances.

Recent regulation has helped to tackle the poverty premium in access financial services, for example by placing caps on high cost credit providers and requiring Brighthouse to provide £148 million to 249,000 customers for lending that may not have been affordable and payments that the company should have refunded.

But many households remain dependent on credit to manage peaks and flows in income while accessing daily essentials. Responsible finance providers play a critical role in providing this credit and are an essential alternative to the high cost lenders.

Jennifer Tankard

CEO

Responsible Finance