



**Minutes of the evidence session on the the role of consumer protection in
addressing the poverty premium**

Tuesday 16th October 2018, 14:00-16:00, House of Commons CR-9

Officers present:

Kevin Hollinrake MP (Chair)

Lyn Brown MP

Giving evidence:

Daniel	Gordon	Competition and Markets Authority
Lucie	Russell	Fair By Design
Alicia	Vernalls	Birmingham Poverty Truth Commission

Others present:

Ali	Ahmed	London Borough of Tower Hamlets
Ben	Bessey	Lyn Brown's Office
Liam	Evans	Turn2Us
Rianna	Gargiulo	The Equality Trust
Andrew	Lincoln	Competition and Markets Authority
Bryony	Loveless	Centre for Theology and Community
George	Mann	Weber Shandwick
Max	Mortimer	Financial Conduct Authority
Carl	Packman	Fair By Design
Scott	Vernalls	Birmingham Poverty Truth Commission
Wanda	Wyporska	The Equality Trust

1. Election of new members

Kevin Hollinrake MP welcomed Lyn Brown MP as a new officer of the APPG.

2. Evidence on the role of consumer protection

Kevin Hollinrake MP opened the meeting and invited speakers to give their presentations.

Lucie Russell, Director – Fair By Design

Lucie introduced [Fair By Design](#) (FBD), which is both (1) an influencing campaign that aims to end the poverty premium and (2) a fund that invests in businesses that have designed fair services for low income consumers. The FBD Fund has so far invested in [Wagestream](#) (an app that allows employees to choose when they are paid), as well as [incuto](#) (an online banking platform for credit unions) and [We Are Digital](#) (a company delivering training to end digital and financial inclusion - both key drivers of the poverty premium).

FBD will be focusing predominantly on financial services, insurance and energy. However, Lucie noted that the University of Bristol's research found that there are 29 different premiums, so work is cut out more broadly to tackle all of the premiums that exist.

FBD have launched a [roadmap for ending the poverty premium](#). In this, they identify its three primary causes:

1. **Unfair costs of living** – Many essential services are priced in a way that penalises certain groups. As low income consumers often do not have the money upfront for annual payments, they end up paying more overall in monthly installments (e.g. travel season tickets and insurance costs). The cost of overdrafts for the poorest subsidises free banking for wealthier people.
2. **The myth of the super-consumer** – We are told that more competition is the answer and that the consumer needs to assert themselves to 'win'. For low income households already struggling to cope, it's impossible to spare the time needed to be a savvy consumer and get the best deals. FBD thinks that all low income consumers should be automatically placed on the cheapest tariffs.
3. **One size doesn't fit all** – The products and services we use usually aren't designed with low income consumers in mind. Instead, businesses make assumptions about what should work for people, although this isn't how most people actually live.

Lucie introduced the stakeholders FBD have identified as crucial in ending the poverty premium. These suggestions are not about limiting the damage, but changing the way products and services are designed.

1. **Businesses** need to 'Poverty Premium-proof' their services. Businesses also need to encourage innovation within their own business and in supporting new ventures tackling this.
2. **Regulators** should broaden the existing regulations on payday loans to include other forms of high-cost credit (HCC) including overdrafts, store cards and catalogue credit. The practices of bailiffs used by local authorities needs to be reviewed. If regulators say that they do not have sufficient power to act on these issues, they need to tell the government to deal with it through legislation.
3. **The government** needs to launch an inquiry into the poverty premium, bringing together all relevant stakeholders. The government need to work with regulators to ensure that a company's duty of care includes making sure low income customers are accessing the best deals.
4. **Social landlords** should automatically place new tenants on the cheapest tariffs, and letting agents should allow new tenants to pay their deposit in instalments.
5. **Employers** should provide financial solutions for their employees, such as providing low or no interest loans and season ticket travel loans to staff.

Lucie explained that this is not about 'handouts', but about 'hand-ups', and that there is a lot that can be done to end the premium. The solutions FBD are proposing are not complicated.

Alicia Vernalls, Commissioner – Birmingham Poverty Truth Commission and Ambassador – Fair By Design

Alicia outlined the ways in which the poverty premium had compounded her experience of poverty. Alicia left an abusive husband at the age of 21, taking her two young children with her. After this experience, it was important for Alicia to feel that she had a safe home for her children and somewhere she could be proud of. Furnishing her new home was only made possible through using doorstep lending and rent-to-own borrowing. The payments had seemed affordable over fifty-five weeks. However, Alicia did not really know what APR was or what this would add up to, and found herself hiding herself and her children from debt collectors when they were unable to meet the payments. Alicia feels that it was irresponsible for them to lend this money, as if she had known what the repayments would have added up to, she would not have said yes. Having the option of borrowing with a low interest rate, without high admin fees, and the opportunity to take a payment break in an emergency scenario would help families from slipping further into debt.

Additionally, Alicia's new home in her estate had prepayment meters for gas and electricity. The high cost of paying on meters meant that Alicia was constantly living on the emergency credit. Although she knew it was more expensive to use prepayment meters, Alicia had not realised just how unfair this premium was. She suggested that when a tenant moves into a property, there should be options outlined

for alternative providers included within a tenancy pack, in addition to financial and benefits advice. She noted that people are often unaware of their entitlement to certain benefits and suggested the introduction of a framework whereby people are identified and information on what they're entitled to and claims forms are sent out to them. Mental health is a huge barrier when struggling with poverty, and going for in person benefits advice can be alienating when you are not in the best frame of mind.

Alicia described the Social Fund, which was abolished in 2013, as a 'godsend', stating that you knew you weren't going to get ripped off and that it was a safety net for anyone struggling financially. She called for this to be reinstated by the government to alleviate the pressure that has been put on charities carry out this provision.

Once in full-time work, Alicia had to go back to high street lenders. She was forced to take out a loan of £400 for the first month of breakfast club and afterschool childcare. This cost was doubled during school holidays. Alicia was spending two-thirds of her wages just to go back to work, and was left with no choice but to get in contact with her children's abusive father for extra childcare support. Alicia described the cost of childcare as 'disgusting', and questioned how people were supposed to 'work their way out of poverty' with these costs. Alicia called for the introduction of a regulatory body on childcare, and for caps on costs to be introduced in order to allow people into work and out of poverty.

Alicia and her family were rehoused in an 'undesirable' area, driving up the cost of car and home contents insurance, which she described as a 'luxury'. She could also not afford the costs of public transport to take her children outside the area. Alicia called for subsidised transport for children, which she stressed was particularly necessary during the school holidays. Parents go without food to cover the costs of term passes or season passes, with an adult day saver costing £4. The effect of poverty and the poverty premium on Alicia's children meant that they enjoyed no holidays, had no escape from a stressed out parent, and no ability to enjoy museums or libraries that the city had to offer.

Currently, Alicia finds the impact of her disability to be a major issue. Her condition means that she has to use more more heating than the average household, which costs a lot on prepayment meters. She said that business and policymakers have 'no understanding of disability'. Alicia's PIP is supposed to be a 'top-up' benefit, but is actually her primary source of income.

Alicia called for a framework of multi-agency cooperation and communication to link benefits, debt, poverty and finance support for disabled people. Additionally, consulting with those who live in poverty is central to restructuring the way businesses think, and ensuring that low income families are provided for.

Daniel Gordon, Senior Director (Markets) - Competition and Markets Authority

Daniel stated that ending the poverty premium is a priority for the CMA. It is important to build an understanding of the poverty premium among consumers, thinking about what the practical consequences are and what the realistic approaches are for addressing the related issues.

Daniel highlighted that we used to think of poverty purely as income, but often now poverty arises from more than just a low income. He stated that market interventions and the benefits system need to address the issues that perpetuate poverty and cause the poverty premium. Daniel noted, for instance, that vulnerable people are less likely to engage in the voluntary market. Benefits that are not paid automatically, such as the Warm Home Discount, often go unclaimed by eligible beneficiaries and the money goes directly to energy companies.

The CMA are currently running a programme of educational seminars, having held a session on digital markets.

Daniel highlighted two big markets where the premium is prevalent:

1. **Energy** – With regards to direct debit payments, poor and vulnerable consumers are less likely to engage in this market than others. Additionally, it is estimated that 48% customers on prepayment meters are on low incomes.
2. **Retail banking** – Most costs relating to financial services come from HCC and overdrafts payments, where there are a significant number of low income consumers who pay extra.

Daniel also highlighted funerals as an unexpected event, which often costs low income families the same amount or more than those who are well-off.

The CMA needs to be practical and use research and evidence to determine its priorities in this area. The CMA are aiming to move away from the idea of the 'super-consumer' in favour of being realistic about what makes people engage in markets. The barriers for engagement are different for different groups, and policy makers do not tend to hear the real life stories about how consumers engage with markets. The CMA must rectify the balance of who they hear from, giving more time to those who advocate on behalf of low income and vulnerable consumers, such as Citizens Advice. Daniel also noted that the CMA are currently dealing with a 'super-complaint' regarding the effect of the 'loyalty penalty' across a number of markets on low income and vulnerable consumers.

Daniel warned against assuming that applying price caps to all markets would act as a panacea to these issues. He explained that eliminating the cost differential entirely simply means putting everyone on the 'worst' tariff, which will also leave some vulnerable consumers worse off. However, Daniel agreed that price caps in the energy market had acted effectively in safeguarding the most vulnerable consumers

against exploitation. He noted that it is crucial to examine the impact on both the 'average' consumer and different groups.

Daniel said that you can define a well-functioning market by how the least well off are doing in it, and therefore it is difficult to define a market where poorer people pay more as 'functioning'. He noted that it is important to explore new solutions, such as collective switching. These forms of support have to be targeted directly at those who need it most; the current 'switching' services do not target low income consumers specifically. Unlocking the data available from suppliers and allowing this data into the hands of the right people is essential in supporting consumer choice.

3. Q&A Session

Q Kevin Hollinrake MP said, in reference to the poverty premium and the loyalty penalty, that the market is not working efficiently when the process of switching is complex. What can be done in these complex areas to support principles around functioning markets and customer choice?

In response, **Daniel Gordon** said that this area requires direct government intervention, and noted that some interventions had not been effective; for instance, simply putting more information out to consumers had not improved consumer engagement. Daniel said that more sophistication with regards to data sharing and designing interventions is needed to allow regulators and businesses to target those who need it most.

Q Kevin Hollinrake MP asked Daniel Gordon whether the CMA would agree with Fair By Design's recommendation of a government inquiry into the poverty premium.

Daniel Gordon responded that the current structure of consumer regulation looks market by market, despite the fact that each regulator is talking at the same people. He noted a need to come together and identify those who are the most vulnerable, and said that having the support of the government would aid this work.

Lyn Brown MP commented that the areas being addressed are each so piecemeal, and that low income families are battling with a huge number of concerns including the costs of water, gas and banking and lack access to discounts, advice and digital technology. Lyn reflected that there is a severe lack of advice available in local areas due to cuts in funding, and commented that the solutions being suggested being amount to 'sticking plasters' on the issue. She suggested instead that legislation needed to be put in place to ensure that everyone is guaranteed equal access. Solutions need to be holistic, not piecemeal.

Liam Evans noted that the written submission Turn2Us provided the inquiry with had focused primarily on access to white goods. He noted some common themes in people's stories of poverty, stating that the story of a single parent with young children who has had to get away from an abusive partner and move into social

housing is commonly cited as a route into poverty. Liam spoke about the common practice of social homes being stripped bare of previous tenants' possessions, and highlighted the lack of a Crisis Loan or Social Fund as a problem. Liam also highlighted the disparity in cost between running a washing machine and using a laundrette, which Turn2Us analysis found to be 2,561% more expensive. Renters in both private and social housing cannot afford the cost of furnishing their home after paying a large deposit, and grants provided by charities can only do so much. Liam recommended that social landlords should provide fully-furnished properties for tenants, and said that getting the large Housing Associations to agree to this would be a good initial step.

Kevin Hollinrake MP agreed, mentioning the work of Orbit housing association, who have also contributed evidence to the inquiry. Kevin stated that rented homes should be at least partly furnished. Part of the inquiry is focused around trying to accumulate and disseminate best practice. Kevin said that he believes changes made by individuals and businesses are more effective than those imposed by the state.

Lucie Russell reiterated that people with lived experience of poverty need to be at the centre of the solutions, as they are best placed to understand the causes and effects of poverty. Fair By Design will be showcasing the positive work of different businesses and enterprises on their website. The campaign's next publication will be the business case for solving the poverty premium; big companies are interested in how they can make money from providing cheap deals for low income consumers.

Kevin Hollinrake MP stated that we need to avoid people getting into debt as a first step. This can arise when families and individuals need to furnish a house, put down a deposit on rented house, moving onto Universal Credit, or through unsustainable and affordable debt collection. The more we can smooth these transitions for people on low incomes, the fewer difficulties we will see.

Alicia Vernalls highlighted local authorities as key in preventing the debt spirals caused by home furnishing. She noted that local authorities give tenants moving out a financial incentive to strip down the house before they leave, which she claimed made no sense and should be changed. However, Alicia said that people not earning a real living wage and the declining standards of living that result from this is the root cause of poverty in the UK. The financial gap between those living on benefits and those who have a 'decent' salary is huge.

Q Kevin Hollinrake MP asked Alicia Vernalls whether she was happy with the pace of progress with the government's 'Living Wage'.

Alicia Vernalls responded that people are 'on their knees' trying to deal with cost of living as it continues to grow. People working in minimum wage, zero hours jobs or living on benefits just cannot afford today's cost of living. Alicia stated that many people are going without gas and electricity, instead sitting at home in their coats and

with candles lit, and that nurses with families are only surviving with the help of food banks. She compared the current day to 'like going back to the war'.

Daniel Gordon echoed that there are key points in life where everyone has the potential to become indebted, and for those without the right support this can cause real harm. Daniel again mentioned the cost of funerals, as well as other life events, as drivers of debt and poverty that may have even bigger consequences if individuals are not able to address these properly at the time.

Q Carl Packman asked Daniel Gordon whether he felt that businesses were on the same journey as regulators, with regards to being more understanding around an interventionist or 'price capping' model.

Daniel Gordon replied, saying that price caps are 'imperfect', that we need to be conscious of the risks of price capping and that there is a need to look at other measures too. He said that the focus should be less focused on capping the market overall, but instead to look into 'safeguarding caps' in particular sectors, such as payday lending.

Carl Packman commented that the cap on payday loans did restrict availability to some people, but that these people were never going to be able to afford the full cost of the loans anyway. The FCA said that lenders must strengthen affordability assessments as people are now more likely to make claims on being mis-sold a payday loan.

Daniel Gordon warned of the risks and unintended consequences of the price cap. For instance, where some lenders have been removed from the market, or where the caps prevents access for the most financially vulnerable, they may end up going to backstreet lenders.

Lucie Russell mentioned Five Lamps as an example of a lender who provides affordable loans, but said that unfortunately people are not using these as they are often not aware of them. She said that the HCC lenders have huge advertising campaigns and promotions budgets which cannot be matched by smaller, 'ethical' companies.

Kevin Hollinrake MP said that employers have a positive opportunity to challenge in-work poverty with benefits for employees such as Wagestream. Kevin highlighted the need to engage more with businesses and employers, as well as the benefits of becoming a 'benevolent' employer for businesses.

Q Kevin Hollinrake MP asked whether participants felt that the 'Zero Deposit' scheme, whereby you insure your deposit instead of paying the entire amount, was a positive solution to costly deposits, or whether this was another way to exploit a vulnerable market. While the costs put in are lower, you do not receive this back, unlike you would with a regular deposit.

Carl Packman suggested that the costs of the deposit should be allowed to be spread over the 12 months. **Kevin Hollinrake MP** said that landlords would not be happy with this as tenants may leave in two months and cause more damage than they have secured it for. **Carl Packman** disagreed, stating that landlords themselves are lacking decent insurance products and should not be leaving the burden solely on private renter. **Lucie Russell** said that it seemed unfair not to get the deposit back, particularly for those who do not have much. Lucie also highlighted the extortionate losses from deposits that renters, particularly young people, are charged for minimal damage. **Alicia Vernalls**, however, noted that for someone who does not have much money and is desperate to find somewhere to live, having the option of losing £200 may be preferable to handing over £1,000 that you might eventually get back.

Kevin Hollinrake MP said that we should aim to get a government inquiry started, to share best practice and to work in collaboration with others working on the same issue, such as Fair By Design. Kevin also noted the importance of hearing about debt collection practices, particularly from local authorities whose debt collectors can take a 'heavy-handed' approach.

4. Conclusion

Kevin Hollinrake MP thanked everybody who had participated, and noted that the next session, [Business solutions to the poverty premium \(financial services\)](#), would take place on Tuesday 13th November, 14:00-16:00.

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