Office of Fair Trading

Markets and Households on Low Incomes

Europe Economics and New Policy Institute

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1 EXECUTIVE SUMMARY

Introduction

1.1 This report provides a review of how people on the lowest incomes are treated in a number of case study markets and identifies reasons for any disadvantages that they suffer compared with people on higher incomes. We considered a range of factors on both the demand and supply sides of these markets which might contribute to any disadvantage.

1.2 The report also considers whether people in low income groups have less access to certain 'enabling' products, such as bank accounts and the internet, which provide improved access to other products and whether they are, as a result, disadvantaged in other markets.

1.3 We have principally relied on official data sources and published material. This has been supplemented by interviews with experts in the relevant sectors.

Low income households

1.4 The low income population is defined here as people living in households where the household income is in the lowest 20 per cent of all household incomes. In practice, this is very close to the official measure of income poverty (that is an income less than 60 per cent of median household income). Identifying the bottom 20 per cent as 'lower income' in this way allows us a common approach across different data sources.

1.5 The likelihood of an individual belonging to a low income household varies significantly between groups. Groups where this likelihood is substantially above the average include workless working age households, lone parent households and those living in social rented accommodation. Children and pensioners also face an above average likelihood (or 'risk') of belonging to a low income household. By contrast, groups where this likelihood is not particularly pronounced can nevertheless make up a substantial 'share' of the overall low income population. Working-age adults and those living in major urban areas are two examples in this category. This distinction, between 'high risk' groups that are over-represented in the bottom fifth of the income distribution and 'high share' groups which account for a significant proportion of that bottom fifth, runs through this report.

Market reviews

1.6 We have reviewed five main goods or service markets – food, energy, financial services, transport and internet access. This provides coverage both of essential goods and of 'enabling' products.

Food

1.7 In the food market evidence on whether people on low income pay more is inconclusive. Local convenience stores are more expensive or may provide lower quality than supermarkets largely reflecting the economics of operation and buying power of the large chains. There may be some localised market power. Low income households without cars (a notably large share of whom are lone parents) are less able to access the special offers and lower prices available in large supermarkets. Cultural aspects can benefit low income households with better local provision of food in some ethnic communities.

Energy

1.8 In the energy market price and choice rather than access or quality are the main issues. Vulnerable groups, including those on low income are not accessing the cheapest tariffs to the same extent as other groups. Prepayment is the most expensive tariff and is used by a quarter of low income households. The standard tariff which is also widely used is only slightly cheaper. The lowest tariff is offered for payment by direct debit with further reductions for online billing. Ofgem considers that the prepayment tariffs are broadly cost reflective but that standard tariff charges are not cost reflective. Licence conditions have been introduced to require cost reflectivity. Doorstep selling by energy companies has led to significant numbers of customers switching to more expensive tariffs. Lack of a bank current account and of internet access, both of which are more likely for low income households, make it difficult to access the cheapest deals.

Financial services

1.9 We have reviewed a number of financial services products. The percentage of low income households that do not have a bank current account is almost double the national average. Basic bank accounts have been developed but do not have the full range of features available with a current account. The accounts on offer may not meet the budgeting and transaction needs of people on low income. For those with current accounts insufficient funds charges levied by banks bear heavily on low income and vulnerable customers. Product revenues and costs are misaligned and there is cross subsidy from those paying charges to people on higher income.

1.10 A range of factors can inhibit the opening of accounts – risk of incurring high charges, self- exclusion, lack of financial literacy, mistrust of financial institutions and onerous ID requirements can all play a part.

1.11 Low income households, particularly those living in social housing, have a lower than average take up of home contents insurance with many saying that it is not affordable. Premiums both for home and car insurance, based on risk of claims, tends to be higher in low income areas. Insurance products may not be well suited to the needs of people on low incomes and there is some distrust of the providers.

1.12 Low income households without a bank account or with low credit rating may be limited to high cost forms of credit. This market is well developed but for some forms there is only a limited range of suppliers. Provision of small loans, with clear repayment terms and without credit checks meets the needs of this group, although at high cost. Individuals tend to stay with the same provider and forms of credit with which they are familiar rather than shopping around. Lack of a bank account, lack of confidence and difficulty in understanding the charges involved all act to deter switching.

1.13 We also looked at the extent to which low income households had any savings which might help them avoid the need to take out high cost loans. Nearly half of all low income households have no savings. These households may also rely more heavily on informal savings mechanisms, including cash and savings stamps. Easier to understand savings products could encourage greater use.

Transport

1.14 Car ownership is seen as another enabling product allowing access to wider employment opportunities and better access to cheaper food outlets. Over half of people in the lower income group do not own a car compared with about 25 per cent in the population as a whole. The marginal cost of travelling by public transport is higher than that of private transport. People on low income may also be deterred from travelling because of the risk of incurring extra cost if public transport is cancelled or conditions of cheap fares are not met.

Internet

1.15 Access to the internet has increased rapidly for all income groups over the past decade but only a third of low income households have access compared with 60 per cent of the population as a whole. Take up is lowest amongst the elderly and households in social housing. Evidence suggests that the reasons for not having internet access are no longer financial but more due to lack of confidence, skills or motivation. Substantial cost savings are potentially available through use of the internet but having home access does not guarantee that those will be achieved.

Enabling products

1.16 Holding a bank current account, car ownership and internet access provide benefits in their own right but also enable the user to get benefits in other markets. This is noted above in the findings from individual markets. It is difficult to quantify this benefit but evidence on food expenditure suggests that car ownership may allow worthwhile savings for some low income households. Low income households with internet access spend a smaller proportion of their income on energy.

Conclusions on markets and low income households

1.17 We have found a number of ways in which low income households can be disadvantaged. This can be in terms of price paid, quality of product and ease of access. Three groups are most likely to be disadvantaged across a range of markets. These are lone parent households, people living in social rented housing and people with disabilities.

1.18 On the supply side of the markets we have identified a range of factors which can explain why the lower income group is disadvantaged. These include:

- market structure which allows the exercise of market power in a number of the markets reviewed

- a variety of pricing practices including cost related and risk based pricing which vary between markets. These are consistent with competitive market behaviour but may still work to disadvantage people on low income

- suppliers decisions on location, for example, on out of town supermarkets, which may be driven by commercial considerations but still result in disadvantage for this group of customers

- product design, particularly in financial services may not meet the needs of the low income group. It has taken government intervention to encourage the development of a basic bank account

- innovations have occurred in a number of the markets reviewed which benefit low income households. This can be seen in local food initiatives, new, albeit high cost, forms of credit and online products.

1.19 Innovation and product design should be stimulated in a competitive market but it is difficult to judge whether more would have occurred if there had been more competition. An alternative explanation could be that limited demand for such products meant that they were not commercially viable. The case for government intervention to stimulate new products is then more about equity than market structure. Internet development is a major continuing source of market led innovation but increased access is necessary if low income households are to benefit fully from this.

1.20 On the demand side there is much more commonality of explanatory factors indicating that people in the lower income group face similar problems and have similar responses in the markets reviewed.

1.21 Not surprisingly the budget constraint is a strong influence on this group's behaviour. More surprisingly loyalty to traditional suppliers deters switching supplier despite paying higher charges. This may in part be because the higher cost products better meet the needs of this group. It may also be related to product costs and other terms and conditions not being easily understood. Energy and financial services involve more complex and less frequent decisions than weekly food shopping. The provision of good information about the choices available is correspondingly more important. That is not an issue confined to low income households but the impact of over-payment will be more significant for that group.

1.22 Concern about penalties that might be incurred by going into debt combined with low savings lead to higher risk aversion in the lower income group. This can lead to low take up products such as current accounts with direct debit facilities which could bring wider benefits. Instead they opt for high cost products such as prepayment meters and extended warranties that carry lower risk of facing unexpected charges. With low income there is a premium attached to having certainty about regular payments.

1.23 There are also other behavioural features which can mean that low income households get less good value. Mistrust of institutions and lack of confidence feature in the financial services and internet markets. Cultural, social or educational issues have been identified as affecting consumer behaviour in the food, energy and financial services markets. Loyalty to traditional suppliers is also in part a behavioural trait. These are not all negative. Provision of ethnic minority foods can improve availability for low income groups.

1.24 The demand side factor which runs across all of the markets considered is the disadvantage which comes from a significant proportion of poorer customers not taking advantage of (or being able to take advantage of) the wider benefits which flow from use of key 'enabling' products. Lack of access to products in one market can result in adverse price effects in another market.

1.25 While difficult to quantify, the potential for cross market improvements in the position of poorer customers through improved access to 'enabling' products may have greater impact over a period of years than intervention on the supply side in individual markets. Improving the interactions between markets in order to achieve a better functioning of markets as a whole, may provide OFT with new policy options which go beyond its traditional focus on issues within individual sectors.

2 INTRODUCTION

2.1 This report has been commissioned by the Office of Fair Trading (OFT) in order to provide an overview of how people in the lowest income group are treated in specific markets and to identify reasons for any disadvantages that they suffer compared with people in higher income groups.

2.2 The OFT has no legal or other mandate to redistribute wealth but one of the factors that it can take into consideration is whether an intervention would benefit disadvantaged customers. This study will therefore provide the OFT with background and context to help it in setting priorities for future work.

2.3 In carrying out the study we have looked in detail at definitions of poverty and how the numbers of households with low income vary according to demographic factors. We have focused on households in the bottom fifth of the income distribution, which we generally refer to as the lower income group, providing a relative rather than an absolute measure of poverty. We have then reviewed how this lower income group fare in their involvement in individual markets and how factors on the supply and demand side of each market affect that outcome.

2.4 People with lower incomes will, as consumers, generally have less choice than people with higher incomes. Not only do they face a tighter budget constraint with a higher proportion of their expenditure devoted to the essentials of food, clothing, housing and energy but they are also less likely to have savings to cover unexpected expenditure and are also less likely to have access to key products such as bank accounts, personal transport and the internet which act as 'enabling' products by improving access to and choice of products in other markets.

2.5 Analysis of how the lower income households are served by particular markets therefore needs to consider the extent to which people in the lower income group, as a whole or in part, are disadvantaged by receiving a less good 'deal' in terms, for example, of the price and/or quality of particular goods and services than people in higher income groups.

2.6 For the most part we have drawn on published material but we have also carried out interviews with experts in each of the markets covered in order to test our findings and obtain additional material.

Where and why are people on low income at a disadvantage?

2.7 This report starts with a review of statistics on low income households and particular demographic characteristics of the lower income group. We then reviewed five main goods or service markets – food, energy, a range of financial services, transport and internet access. Food and energy were selected because they account for a significant proportion of the expenditure of low income households and both markets have been the subject of considerable research into the treatment of people on low incomes. Financial services and access to the internet have been identified by government as markets which help to foster social inclusion. They also, along with transport, play a wider enabling role in improving the access that people on low incomes have to other markets.

2.8 Between them these case studies illustrate the variety of ways in which the lower income group can be disadvantaged and provide the basis for more general conclusions. There are many reasons why people in the lower income group may be disadvantaged and these are likely to vary between markets. During the course of this study we have identified a number of factors on the supply and demand side of markets which are relevant to the outcome. These are listed in generic terms in Table 2.1. In the final sections of the report we set out a more detailed consideration of the relevance of these factors both within and between markets and look, in particular, at the role of the enabling products.

Table 2.1: Supply and demand side factors affecting the lower income group

Supply side	Demand side
Market structure	Budget constrained price/quality trade off
Cost of supply	Mobility
Price discrimination	Limited information
Pricing linked to payment method	Risk aversion
Risk based pricing	Lack of savings
Location	Lack of confidence/mistrust of institutions
Terms and conditions	Inertia/constraints on switching
Marketing practices	Cultural/social/educational
Product design	Lower access to enabling products
Innovation	Product requirements

3 THE LOW INCOME POPULATION

The scale of poverty

3.1 This section presents an overview of the low income population – the 'poor consumers' in the UK relative to the population as a whole. All of the data and definitions in this section come from the Department for Work and Pensions' *Households Below Average Income (HBAI)* series.

3.2 In this project, we identify the low income population with people and households in the bottom fifth of the income distribution. This identification of the poorest fifth with the low income population is justified below. These income distributions is based on household incomes after income tax and national insurance, but before housing costs have been deducted.

3.3 Using income before housing costs (BHC) does carry certain problems, the greatest of which is how to deal with Housing Benefit. In a BHC measure, Housing Benefit is treated as income, when in reality it is hypothecated. Moreover, a household would see its BHC income increase if its rent, covered by Housing Benefit, were to increase. An After Housing Costs (AHC) measure does not suffer from these difficulties as it deducts the rent being paid from the BHC figure.

3.4 However, it is the BHC measure that the Government is using in the Child Poverty Bill, currently going through parliament. The BHC measure will therefore be enshrined in law as the principle measure of low income. For this reason, we have used the BHC measure of low income in this report.

3.5 In doing so, we note that some groups figure more prominently in a description of low income BHC than AHC. Those with low housing costs (pensioners, people in Northern Ireland) tend to have higher relative risks of low income BHC. For those with high housing costs (some private renters and people with mortgages, people in London) the opposite is true.

3.6 Household income is then adjusted for size and composition. This process (known as equivalisation, and carried out by Department for Work and Pensions (DWP) according to internationally recognised processes) recognises that larger households require more resources, but that the relationship between size and need is not exactly linear. While a household with two people may need twice as much food as a single person household, it does not need twice as many cookers or refrigerators, for instance.

3.7 Table 3.1 gives values for different points along the BHC income distribution for different household types.

Table 3.1: Values of quintile points of the income distribution for different family types (£s per week 2007/08)

Household type	Equivalisation factor	20% point	40% point	Median	60% of median (low income threshold)
Couple no children [1]	1	244	339	393	236
Single adult no children	0.67	164	227	263	158
Single adult two children aged 5 and 14	1.2	293	406	472	283
Couple, two children aged 5 and 14	1.53	373	518	601	361

Source: Households Below Average Income, 2007/08

3.8 The figures in the table are unequivalised cash values based on the income distribution of the entire population. So for example, a couple with no children is in the bottom fifth if their weekly income is below £244. By contrast, a single adult with two children is in the bottom fifth if its weekly income is less than £293.

[1] A couple without children is used as the benchmark household type, and given an equivalisation factor of1.

3.9 One important point of note is that that the values for household income at the bottom quintile are very close (within a few pounds per week) of the values for 60 per cent of median income for respective household types. 60 per cent of the median is the conventional low income/income poverty line used by the government and the proximity of this value to that quintile point for the bottom fifth is what justifies our approximation of the bottom fifth with those in low income.

3.10 For simplicity, then, the analysis that follows uses households in the bottom fifth as its definition of low income. This is simpler to understand than the 60 per cent of median definition, but quantitatively little different. Moreover, whilst the HBAI dataset would allow us to use the 60 per cent definition, other datasets simply divide the income distribution into fifths. Looking at the bottom 20 per cent thus allows us to make comparisons within and across different data sources.

Features of low income households

3.11 We have considered two principal approaches to analysing the relationship between demographic factors and poverty. We distinguish between:

- 'High risk' groups – that is, those who are disproportionately represented in the bottom fifth of the income spectrum – including workless households, lone parent households, households with at least one disabled adult and Pakistani and Bangladeshi households. There are very few simple cuts of the population whereby over half of any group is in the bottom fifth. The exceptions are workless households, and Pakistani or Bangladeshi households.

- 'High share' groups – that is groups which account for a significant proportion of the total number in the bottom fifth of the income spectrum. There are many examples of instances where a group has a relatively low risk of low income but, due to its size, makes up a large share of the low income group. White British households are one such group – the risk of low income is lower than average, but this group makes up 80 per cent of all those in the bottom fifth simply because it makes up 85 per cent of the total population.

3.12 Table 3.2 summarises the findings under these two headings. As above, the data for this analysis are taken from the HBAI Survey published by ONS which is derived from the Family Resources Survey (FRS).

Table 3.2: Percentage of the population in low income households

Factor	High risk groups	High share groups
Age groups	Pensioners (25%) children (25%)	Working age adults (50%)
Work status	Unemployed (70%), other working age economically inactive (51%)	Head or spouse aged over 60 (25%), Other Working age economically inactive (25%), Unemployed (10%)
Family type	Lone parent (39%), Female Pensioner (32%)	Working age couple with children (32%)
Disability	Households with a disabled adult (26%)	Households with no disabled adult (66%)
Tenure	Local Authority rental (43%) Housing Association rental (35%)	Owned with a mortgage (23%), owned outright (32%)
Ethnicity	Bangladeshi, Pakistani (both 50%+)	White British (81%)
Rurality	Major Urban areas (22%)	Major Urban areas (38%)

Source: Households Below Average Income, 2007/08

3.13 Particular features to note are:

- Age groups:
  - Half of those in the lowest fifth are working age adults and a further quarter are children.
  - 25 per cent of children are in the bottom fifth of the income distribution, as are 25 per cent of pensioners.
  - The figures for working age adults with and without children are 20 per cent and 15 per cent respectively.
- Work status:
  - Inevitably, the 'risk' of being in the bottom fifth of the income distribution is much higher among people living in workless than working households.

- Seventy per cent of people in households where the head of the household is unemployed and 51 per cent of those in other workless working age households are in the bottom fifth of the income distribution.

- These high proportions are quite rare, in that they are among a handful of examples of more than half of a particular group being in the bottom fifth of the income distribution.

- Between them, unemployed and other workless households account for around one third of all people in the bottom fifth of the income distribution. Households where the head or spouse is retired account for a further quarter.

- This means, though, that a significant minority of those in the bottom fifth of the income distribution live in a households where at least one adult is in paid work.

• Tenure:

  - Around two-fifths of people living in social rented accommodation (either local authority or housing association accommodation) are in the bottom fifth of the income distribution.

  - This compares to around 10 per cent of those who own with a mortgage and 23 per cent of those who own their homes outright.

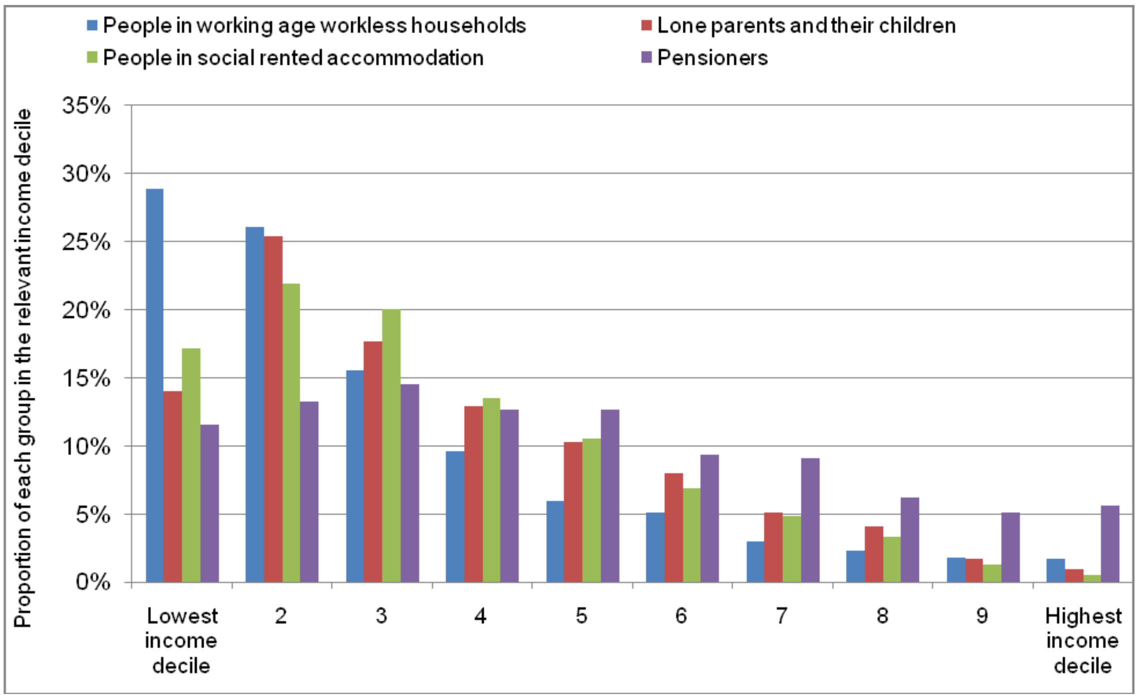
  - Those who own their own properties outright make up almost one-third of the low income population. Those who own with a mortgage make up a further quarter.

The overall distribution

3.14 Having looked at the low income population, we now look at the overall population broken up into income deciles. This allows us to look at both those who are very poor – the bottom 10 per cent, rather than the bottom 20 – and those who are nearly poor.

3.15 For some demographic features the income distribution is heavily skewed. This is the case for people in workless working age households, lone parent households and occupants of local authority and housing association accommodation. The distributions for each group are shown in Figure 3.1 below.

Figure 3.1: Income distribution of different household types



Source: Households Below Average Income, 2007/08

3.16 It was noted above that over half of people in workless, working age households were in the bottom fifth. In fact, almost all of this group are in the bottom half of the income distribution. This is also broadly true of lone parents and their children and people in social rented accommodation.

3.17 It is not true, though, of pensioners. Despite being over represented in the lowest two deciles (around one in eight of pensioners are in each of the bottom two deciles), around one quarter are in the top four tenths of the income distribution.

3.18 It is worth noting, though, that people in workless households are most heavily represented in the bottom decile, whereas the other groups are more prevalent in the second bottom decile. As such, we see that people in workless households are more likely to be very poor.

3.19 In fact, adults in workless households without children are almost by definition in the bottom tenth of the income distribution. If they have no other incomes, benefit levels for these groups are low enough to guarantee that they will be in the bottom 10 percent.

3.20 Pensioners are in fact slightly more likely to be in the third lowest decile than either of the two bottom deciles. That is to say, there are slightly more 'nearly-poor' pensioners than 'very poor' pensioners.

4 FOOD

Main points

- Issues concerning the poor paying more for food are controversial and evidence on differential prices is not conclusive.
- Local convenience stores are more expensive than supermarkets, reflecting economics of operation and buyer power of larger outlets.
- There has been a movement of supermarkets away from city centres where building sites are less expensive.
- An access problem for the poor reflects an interlinkage between food and transport markets, as a car acts as an enabler for access to supermarkets.
- 'Food deserts' in the traditional sense may not be applicable today but issues relating to the shopping experience persist.
- There may be areas with elements of local monopoly power (only one convenience store within walking distance), but this is very location specific.
- The culture of food, seeing food shopping as a social experience, is important. This comes through from observed differences in the quality of food outlets in low income predominantly ethnic areas versus low income non-ethnic areas.
- Low income lone parents without cars spend significantly more on food than those with cars. Second degree price discrimination in the form of 'bulk buys' is a likely explanation, as price per unit of food comes cheapest in bulk buys, which is particularly difficult for lone parents without a car to carry and/or store.

Introduction

4.1 It is important to recognise that the issue of 'whether the poor pay more for food' is controversial and not universally agreed upon by researchers. Alternative hypotheses have been met with reservations and complications due to lack of broad empirical data, the complexity that arises in trying to measure nutritional intakes and changing patterns of the large retailers. There is also a distinction between research based on 'mapping' an area, and research using first hand expenditure data.

Access, price paid and quality

4.2 Food poverty, as defined by The East Midlands Health Observatory is:

> If a household or individual are unable to obtain a nutritionally adequate diet, they are typically considered to be living in food poverty.[2]

4.3 There is evidence to suggest that those without a vehicle, and not within walking distance of a large grocery store, face higher food costs. According to a study by the Food Standards Agency (Scotland, 2005-2007):[3]

> There is a tendency for prices to be lower in larger shops and in areas with a low level of social and economic deprivation.

4.4 We were told that prices in the smaller high street branches of the major supermarkets are typically five to 10 per cent higher than their larger counterparts.[4] But these stores may still be less expensive than the local convenience stores.

4.5 The Scottish study found a negative correlation between the availability of healthy foods and level of deprivation (as deprivation increases, number of available healthy foods falls). This study showed that the price for a healthy foods basket varied across store type, median price ranging from £37.48 in

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[2] Flaherty (2009) 'understanding food poverty'.
[3] Food Standards Agency Scotland (2008) 'Accessing healthy food: A sentinel mapping of healthy food retailing in Scotland'.
[4] Interview.

large stores, £40.30 in medium sized stores to £47.83 in small stores. The area with the highest prices was rural, at £52.75 per basket. The basket could be purchased cheapest in the two affluent small town areas.

4.6 UK households in the lowest income decile tend to spend the highest proportion of income on food: 26 per cent versus 15 per cent for the rest of the population but in absolute terms, these households spend much less.[5] An earlier study found that the poorest fifth spend 25 per cent of their total income on food, and in order to purchase a healthy diet would need to spend over 30 per cent.[6]

4.7 A recent US study suggested that poor households pay less than richer households for identical goods.[7] The study found that the poor pay less because they shop in cheaper stores and because they pay less for goods in the same store, as they are more likely to buy food on sale. The poor shop more in convenience stores, where prices are higher, but have a higher share of expenditure in supercenters where prices are lower than in grocery stores. The findings of this study run counter to the conventional comparative shopping basket analysis. Further research would be necessary to see whether similar results can be observed in the UK.

4.8 In the UK, during the late 1990s, areas characterised by deprivation, social exclusion, and poor access to healthy, affordable food became known as 'food deserts.' A 2003 study found that after a Tesco was built in the area of Seacroft and Whinmoor of Leeds, which is in the top five per cent most deprived wards in England, those living within walking distance significantly increased their fruit and vegetable consumption.[8]

4.9 A 2007 study suggested that more extensive empirical investigations of food deserts in the UK have found very little evidence suggesting that areas

[5] Dowler (1997) 'Budgeting for food on a low income in the UK: the case of lone parent families'.
[6] Leather (1996) 'The making of modern malnutrition' Caroline Walker Lecture.
[7] Broda, Leibtag, Weinstein (2009) 'The role of prices in measuring the poor's living standard' Journal of Economic Perspectives.
[8] Wrigley, Warm and Margetts (2003) 'Deprivation, diet, and food-retail access: findings from the Leeds 'food deserts' study' Environment and Planning A 2003, volume 35, pages 151-188.

exist with large proportions of residents with poor access to retail food stores.[9]

4.10 Quality is an issue in the sense that the UK poor often receive less than optimal nutrition because of access and affordability. In 2008 the Department for Environment Food and Rural Affairs (DEFRA) reported lower percentages of fruits and vegetable consumption in poor households, with two adult households in the lowest three income deciles purchasing about 650 grams per person per week (about one fruit per person per day) less than households on middle income.[10] The Scotland study revealed that in terms of quality, ratings on fresh vegetables and fruits are better for large general stores, while small stores and stores in deprived areas have the greatest proportion of items rated as poor quality.

4.11 Other surveys in the UK found that few low income groups have difficulty accessing and affording fruit and vegetables. Few also claimed that they had trouble accessing supermarkets.[11]

Reasons for differential outcome

Supply side

4.12 One interesting aspect of the food market is that suppliers clearly compete for customers at the lower income end.[12]

4.13 Over the past 20 years the large supermarket chains have accounted for an increasing share of sales. There has been a growth in large, often out-of-town stores. Specialist local grocery shops have declined in number while there may have been a small increase in small convenience stores. That

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[9] Macintyre (2007) 'Deprivation amplification revisited' International Journal of Behavioural Nutrition and Physical Activity.
[10] DEFRA (2008) 'UK purchases and expenditure on food and drink and derived energy and nutrient intakes in 2007'.
[11] Dibsdall, Lambert, Bobbin, Frewer (2003) 'Low-income consumers' attitudes and behaviour towards access, availability and motivation to eat fruit and vegetables' Public Health Nutrition
[12] This was raised in one of the interviews in reference to numerous budget lines and special offers aimed at those less willing to spend.

includes the development of local outlets by the large supermarket chains. The development of larger outlets away from residential areas has increased travel times with increased reliance on car transport.

4.14 In rural areas with no relatively affordable grocery store within walking distance, people without a car are significantly more excluded than owners of a car in the same neighbourhood. In urban areas where public transport is available, there is often a problem for the poor as they face time and income constraints and/or they have children which makes public transport difficult.

4.15 Without access to a car, it is also difficult to access food at lower marginal costs (in special offers and 'bulk buys' which are a form of second degree price discrimination). According to one of our interviewees, it is the middle class that benefit from, and are the target market for, bulk buy stores such as Aldi or Lidl because they are more likely than the poor to have transportation to carry and store large packages. Those without a car are less able to benefit from the lower marginal costs, and face higher transportation costs, as they require more grocery trips, compared to those able to buy large quantities at a time. Lone parents without a car are especially disadvantaged as it is more difficult for them to carry children and large packages on public transport or on foot.

4.16 Low-income areas may be less attractive to large retailers because of lower average expenditure. According to Leather (1996), the small shops that tend to locate in poorer areas have higher food prices because they have higher operation costs and more market power, along with less availability of items. The lower turnover in shops in lower income areas means it is often not worthwhile to stock a range of fresh fruit and vegetables. Buyer power also comes into the explanation, as covered in the recent Competition Commission investigation.[13] We were told that the buying power of the smaller stores in the wholesale market had diminished substantially to the detriment of prices in the smaller stores. Medium-sized store groups have slightly more buying power but it does not match that of the larger chains.

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[13] Competition Commission (2008) 'The supply of groceries in the UK market investigation' www.competition-commission.org.uk/rep_pub/reports/2008/fulltext/538.pdf

4.17 According to a study in Leeds, local polarisation in the geography of poverty in the mid 1990's fuelled the problem of the poor facing higher prices, as poor households became increasingly concentrated in small areas and the net incomes of the richest grew much faster than the poorest.[14]

4.18 We were told in interview that in Northern Ireland fewer people have access to cars and the public transport system is much poorer making access to food outlets more difficult.

Demand side

4.19 Fresh fruit and vegetables tend to be more expensive than equivalent less healthy options.[15] So that when faced with a budget constraint a low income family may often choose low price over high nutrition in order to feed their entire family. Individuals doing shift work or working non-standard hours may also rely more on convenience food.

4.20 Cultural factors can also be important. In ethnic minority areas (both non-white and white such as Italian or Polish), there tend to be a larger selection of outlets selling healthy food at reasonable prices.[16] We were also told that shopping for food should be considered as a social experience – this is particularly important for pensioners – and can create a community feel. The quality of the outlet itself also becomes important in this regard.

Recent changes

4.21 We were told about a growing movement of food co-operatives in low-income areas. These co-ops supply food to local people, and many are aimed at the poor and charge lower prices. This is not formally part of the market sector, and can be government funded. For example, we were told that the Welsh Assembly Government funded 167 co-ops. There is an

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[14]Wrigley et al (2003) 'Deprivation, diet, and food retail access: findings from the Leeds 'food deserts' study. Environment and Planning A.

[15]An example given in an interview was of a bag of ready to cook vegetables plus other ingredients to make a meal costing more than burger and chips (before accounting for the additional time and labour costs involved in the cooking).

[16] This was stressed by more than one interviewee.

element of instability with these programmes. If local authorities rely on food co-ops rather than the issue of prices being higher at local convenience stores, and lack of a supermarket, there is a danger that volunteers move on and the co-op dies out, the community is left with no co-op and no supermarket.

4.22 Other initiatives are being undertaken to change this culture of food. Farmers markets, co-ops, community cafes and grow your own initiatives can all contribute to this shift. Local authorities, whether through government or lottery funding, do have the power to make a difference, for example through planning regulations.

5 ENERGY

Main points

- Price and choice, rather than an access or quality, are the main issues. Vulnerable groups are not accessing the most competitive tariffs to the same extent as non-vulnerable groups.

- Rises in fuel prices in recent years have led to an increase in fuel poverty. The majority of those in fuel poverty are pensioners.

- Spending is lower in local authority and RSL property than owner occupied or privately rented accommodation, in part reflecting the public sector commitment to improving energy efficiency.

- Prepayment is the most expensive form of payment, being much higher than direct debit, but not differing greatly from standard credit.

- The proportion of low income households using prepayment is around one quarter, which is double the average for households as a whole. Note also that the majority of the fuel poor use standard credit.

- Standard credit customers as well as those in social group E are the least active in switching.

- Not all the difference between prepayment meters is cost-reflective, although Ofgem believe they are broadly reflective. Standard credit charges are not cost reflective.

- Doorstep selling has led to a significant proportion of low income customers switching to worse tariffs.

- Cross effects with other markets — lack of internet access and bank accounts can restrict access to lower cost options.

Price paid, choice and fuel poverty

5.1 In the energy market the issue for low income households is not about access to electricity and gas but about the terms on which energy is available and the absolute size of the household fuel bill. Ofgem's energy supply probe found that vulnerable groups, which include those on low incomes, those without a bank account and those without easy internet access, were not accessing the most competitive tariffs to the same extent as non-vulnerable groups.

5.2 A household is said to be in fuel poverty if it needs to spend more than 10 per cent of its household income on fuel to heat the home to an adequate level of warmth (where adequate is usually taken to mean 21 degrees Celsius in the living room area and 18 degrees in other occupied rooms). The level of fuel poverty will be affected both by changes in income levels and by changes in fuel prices. Fuel poverty will also be affected, over a longer timescale, by any improvements in the energy efficiency of housing. Rises in fuel prices in recent years have led to an increase in the number of households in fuel poverty. In England, this has risen from 1.2 million in 2003 to 2.8 million in 2007, or from 5.9 per cent of households to 13.2 per cent.[17]

Estimated required energy expenditure

5.3 Table 5.1 shows the average required spend on heating and light for different income quintiles for 2006. This year is used here because it is the most recent for which such a breakdown by income can be provided.

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[17] Department of Energy and Climate Change (2009) 'Annual Report on Fuel Poverty Statistics 2009'

5.4 The estimated average annual fuel bill to cover home heating, water heating, cooking and lighting varies a little between income groups from £990 for the bottom income quintile to £1,132 for the top quintile.[18]

Table 5.1: Average required spend on heating and light by income quintiles

Group	Average required annual fuel spend
Whole population	£1,029
Bottom income quintile	£ 990
2nd	£ 957
3rd	£1,004
4th	£1,063
Top income quintile	£1,132

Source: English House Conditions Survey, 2006

5.5 These differences largely reflect house size and type of occupancy. These estimates can be broken down by family type, economic status, tenure and location as shown in Table 5.2.

5.6 Required spend is highest in couple households, and lowest in single person households. It is also higher among working than non working households. This is simply because working households tend to live in larger houses. The reason the gap is not larger is that workless households are assumed to spend more time at home and heat their homes during this time.

5.7 It is notable that spend in local authority and RSL (Registered Social Landlord) property is much lower than in owner occupied or private rented accommodation. This is true for the bottom fifth income group as well as the population as a whole. This is likely to reflect the public sector

[18] The costs in the table are the estimated costs required to keep the home at a comfortable level of warmth. As such, they are modelled figures, not actual expenditure. They take into account the energy efficiency and size of the home, as well as the method of payment. For more information, see Updates and Modifications to the Fuel Poverty Methodology for the 2007 Fuel Poverty Analysis, 2009.

commitment to improving the energy efficiency of the housing stock which has not been matched in the private rented sector.[19] But it also reflects the fact that social accommodation is relatively smaller.

5.8 All else equal, the cost of heating private rented accommodation should be no higher than for social renters, yet it is some 20 per cent higher in some cases. Here, the interaction of the housing and energy markets, with lower energy efficiency in private rented accommodation, results in a worse outcome for some low income consumers.

[19] The English House Conditions Survey for 2006 indicates that around nine per cent of LA housing has a low energy efficiency rating, compared to around 15 per cent of private rented accommodation.

Table 5.2: Required fuel spend by households with different characteristics

Group	Average required fuel spend per household	Average required fuel spend for households in bottom quintile.
Total	£1,029	£990
Couple with dependent child(ren)	£1,199	£1,113
Couple, no dependent child(ren)	£1,068	£1,039
Lone parent with dependent child(ren)	£986	£1,004
One person aged 60 or over	£845	£887
One person under 60	£786	£783
Other multi-person household	£1,075	£1,064
1 or more work full time	£1,074	£1,095
1 or more work part time	£1,057	£1,010
None working and none retired	£921	£936
None working, one or more retired	£970	£965
Local authority housing	£823	£865
Owner occupied	£1,088	£1,044
Private rented	£1,017	£1,112
RSL	£770	£821
Town and fringe	£1,055	£1,047
Hamlet & isolated dwellings	£1,687	£1,364
Village	£1,420	£1,281
Urban > 10k	£967	£952

Source: English House Conditions Survey, 2006

Payment methods

5.9 There are three types of payment for gas and electricity – direct debit, standard credit (that is, pay by cash or cheque) or prepayment. The average costs of gas and electricity for a standard quantum of energy paid for by different payment types in 2009 are shown in Table 5.3.[20]

Table 5.3: Prices of gas and electricity by method of payment, 2009

	Standard Credit	Direct debit	Pre payment
Gas	£719	£649	£744
Electricity	£460	£420	£465

Source: Department for Energy and Climate Change[21]

5.10 Prepayment was found to be the most expensive form of payment, especially for gas, where it was £25 more per annum than standard credit and nearly £100 more than 'offline' direct debit. However, the difference between prepayment and standard credit for electricity is small. The main price differential is with direct debit.

5.11 A notable price differential has also been reported between 'online' and 'offline' direct debit with the former exhibiting cheaper tariffs. With an online direct debit scheme, customers opt to receive and pay bills online and sometimes to supply their own meter reading. It is estimated that some 1.3 million customers, or five per cent of households in Great Britain, made use of this scheme in 2008.[22] Ofgem estimated this online discount is around £50, with a range of between £60 and £150 between 2004 and 2006.[23] Ofgem's evidence points to a cost differential between the two methods in the region of £10, suggesting strategic motivation behind the heavy discounting. Indeed, Ofgem observed that the online tariffs of the big six

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[20] The 'average' is based on consumption of 18,000 kWh gas and 3,300 kWh of electricity. These figures should not be confused with those used in Table 4.1 and 4.2 which relate to a specific level of comfort.
[21] Department of Energy and Climate Change (2009) 'Quarterly Energy Prices September 2009' Tables 2.2.1 and 2.3.1.
[22] Ofgem (2008) 'Energy supply probe – initial findings report', Paragraph 7.73.
[23] Ofgem (2008) 'Energy supply probe – initial findings report', Paragraph 7.48.

suppliers only remained open to a new customer for a short period of time. A difference of 46 per cent was reported between existing and new customers of online direct debit deals for British Gas' first Click Energy online tariff until October 2008.[24]

5.12 Table 5.4 looks at the proportion of households using prepayment for gas and electricity, by income quintile. The figure for electricity covers all homes. The figure for gas covers only those homes with a gas connection.

Table 5.4: Proportion of households using pre payment meters for gas and electricity

Group	Proportion using pre payment for gas	Proportion using pre payment for electricity
Whole population	12%	14%
Bottom income quintile	24%	27%
2nd	16%	19%
3rd	11%	14%
4th	5%	7%
Top income quintile	2%	3%

Source: English House Condition Survey, 2006

5.13 Around one quarter of low income households use prepayment to pay for their gas and electricity. This proportion is double the average for households as a whole.

5.14 The annual report on fuel poverty statistics (2009)[25] commented that standard credit had become the most common method of payment among the fuel poor for both gas and electricity having overtaken prepayment. As is shown in Table 4.3 standard credit was almost as expensive as pre payment.

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[24] Ofgem (2008) 'Energy supply probe – initial findings report', Paragraph 7.74.
[25] Department of Energy and Climate Change (2009) 'Annual Report on Fuel Poverty Statistics 2009'.

5.15 We conducted a quick comparison of the price differential by method of payment for two London postcodes (W4 and E3). For electricity, the standard credit terms turned out to be the most expensive plan — priced higher than direct debit by 7.5 per cent and higher than prepayment by 4.9 per cent. For gas utilities, there was just over a one per cent difference between the direct debit and cash/cheque options.

5.16 A customer may also have fewer options for switching supplier with a prepayment meter. The mystery shopping exercise on our part for the E3 postcode showed there were some seven companies offering deals for customers on prepayment, eleven if the customer used cash/cheque payment and fifteen if they used direct debit. However, the Ofgem energy supply probe pointed out that prepayment customers had started switching in greater numbers in recent years and over-emphasis on the group which use this payment method rather than standard credit could overlook the vulnerable subset which pay through standard credit means.

5.17 Another issue is that customers who are directly approached by a supplier may end up switching to a worse deal.[26] This was emphasised by the energy expert we interviewed and Ofgem found that 48 per cent of gas customers and 42 per cent of electricity customers who switched as a result of direct sales do so to a worse deal. Interestingly of those who switched as a result of their own enquiries, there remained a non-trivial proportion in the sample which did not benefit — 36 per cent for gas and 40 per cent for electricity.[27] Within payment methods, prepayment customers were the most likely to switch to a worse deal.

5.18 We did not come across firm evidence to suggest direct sales approach by energy suppliers were more targeted at low income areas. The Ofgem probe mentions that suppliers use socio-demographic information as well as fuel consumption data and payment method in deciding which areas to 'target'

[26] Ofgem (2008) 'Energy supply probe – initial findings report', Table 4.1. Based on Ipsos Mori quantitative survey July 2008, sample size approximately 400.
[27] Ofgem (2008) 'Energy supply probe – initial findings report' Table 4.1.

but goes on to say a number of suppliers specifically do not target vulnerable customers.[28]

5.19 The distribution of prepayment meters by income and other factors shown in Table 5.5 is far from straightforward. Going by some classifications, poor households are far more likely to use a prepayment meter than non poor households. One such example is couples with children, where low income households are over twice as likely to use pre payment meters as households on average.

5.20 However, some poor groups are no more likely, and in some cases, less likely, to use prepayment meters than the group is on average. For instance, older people living alone are less likely to use prepayment meters if they are in the bottom fifth than if they are not.

5.21 If we analyse by work status, there is little difference for either gas or electricity in the proportion of poor and non-poor workless working age households who use prepayment meters. In all cases, around half of households use them.

5.22 Among full time working households, the proportion using prepayment meters is twice as high in the bottom fifth as it is among full time working households in general. Among part-time working households, the figure is at least 50 per cent higher.

5.23 This difference by work status is probably reflective of differences by tenure. We know that around two thirds of head of household in social rented accommodation are not working.[29] The table above shows that two fifths of all LA and RSL households, and three-fifths of the poorest such households, use prepayment meters.

5.24 By rurality, what is most interesting is that few households in rural areas use prepayment. Even among the poorest households, the proportion prepaying for gas never rises above seven per cent, and the proportion pre

[28] Ofgem (2008) 'Energy supply probe – initial findings report', p91-92.
[29] MacInnes, Kenway, Parekh (2009) 'Monitoring Poverty and Social Exclusion',, Joseph Rowntree Foundation.

paying for electricity never rises above 12 per cent. One could hypothesise why this might be true – the absence of a local shop at which the pre payment card can be topped up is the most obvious reason. It may also be down to the higher cost of installing meters in rural locations.

5.25 The high proportion of social renters who use prepay meters suggests that the ability to switch to a cheaper option may be more limited than people in other tenures. Even if we look at the non poor, we see that over a third of social renters use prepayment meters. However, the energy consumption required to meet a defined comfort level is lower for this type of housing and this may offset some of the higher cost of prepayment tariffs.

5.26 There are possible linkages to other issues of access, such as having a bank account and internet use. Obviously, people without a bank account cannot pay by direct debit and internet access provides easier price comparison and lower online tariffs.

5.27 Social energy tariffs, which all energy providers provide to their most vulnerable customers, mitigate some of the disadvantages that the poor face.[30] These tariffs equal the suppliers' cheapest deals but they remain voluntary in nature such that the eligibility conditions vary across suppliers.

[30] MacInnes, Kenway, Parekh (2009) 'Monitoring Poverty and Social Exclusion', Joseph Rowntree Foundation.

Table 5.5: Proportion of households with prepayment meters by various characteristics

Group	Proportion using prepayment for gas	Proportion of low income households using prepayment for gas	Proportion using prepayment for electricity	Proportion of low income households using prepayment for electricity
Total	12%	24%	14%	27%
Couple with dependent child(ren)	12%	31%	14%	34%
Couple, no dependent child(ren)	6%	8%	7%	10%
Lone parent with dependent child(ren)	39%	52%	45%	59%
One person aged 60 or over	8%	6%	9%	8%
One person under 60	14%	32%	19%	38%
Other multi-person household	16%	22%	19%	24%
1 or more work full time	8%	21%	10%	25%
1 or more work part time	17%	30%	20%	33%
None working and none retired	45%	47%	50%	52%
None working, one or more retired	6%	5%	7%	7%
Local authority housing	41%	54%	46%	59%
Owner occupied	4%	7%	5%	9%
Private rented	16%	25%	20%	29%
RSL	42%	55%	44%	60%
Households without disabled adults	10%	23%	12%	26%
Households with one or more disabled adult	17%	26%	19%	29%

Group	Proportion using prepayment for gas	Proportion of low income households using prepayment for gas	Proportion using prepayment for electricity	Proportion of low income households using prepayment for electricity
Town and fringe	7%	16%	10%	20%
Hamlet & isolated dwellings	3%	5%	5%	10%
Village	5%	10%	7%	12%
Urban > 10k	13%	25%	15%	30%

Source: English House Condition Survey 2006

Reasons for differential outcome

Supply side

5.28 The higher cost of installing and maintaining prepayment meters is commonly cited by the industry as the reasoning behind higher prices associated with this method of payment. Not all the difference between prepayment meters is cost reflective, although Ofgem surmised that they were 'on average, broadly cost reflective'.[31] The prepayment price differential for a typical 'dual fuel' customer was £118, with an estimated cost difference of between £85 and £100.

5.29 Another concern is the lack of transparency in options available as alternatives to standard credit, which tends to be presented as the default option. Ofgem's probe did not find sufficient grounds for the standard credit premium to be justified on cost. Standard credit customers also tend to be the least active in switching further worsening their situation.[32] Since that report Ofgem has introduced new licence conditions on retail energy suppliers that require tariffs to be cost reflective and prohibit undue discrimination between customers.

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[31] Ofgem (2008) 'Energy supply probe – initial findings report' p109.
[32] Ofgem (2008) 'Energy supply probe – initial findings report' p110.

5.30 Other supply side issues may arise due to debt blocking. In 2007, nine per cent of all transfer requests for gas, and eight per cent for electricity, were blocked due to a customer's existing level of utility debt.[33] We were advised that this is not now considered a major barrier to switching.

Demand side

5.31 Lower levels of switching have been found amongst those in social group E, those aged over 65, those without internet access and those who rent (particularly from a private landlord).[34] More generally, there is a concern that those with lower levels of literacy and numeracy find it harder to fully absorb the information on price comparison sheets and are less likely to switch.[35]

5.32 Other possible reasons for a poorer outcome for the most vulnerable identified by Ofgem include:

- Lack of awareness: The four per cent of customers unaware of switching opportunities in the Ipsos Mori survey are concentrated among the young, unskilled and renters.

- Loyalty to existing suppliers: This is likely to affect those who rely on electricity for medical reasons or those receiving additional valued services from their suppliers such as security passwords or bills in Braille.

- Lack of interest: Around a fifth of people surveyed by Ipsos Mori claimed to be comfortable with their supplier.

5.33 For some consumers on low income prepayment meters are seen as a preferable means of budgeting for energy costs. The higher cost is offset by the reduced risk of incurring bank charges if a direct debit payment is refused.

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[33] Ofgem (2008) 'Energy supply probe – initial findings report' p120.
[34] Ipsos Mori (2008) 'Ofgem consumer engagement survey'.
[35] Ofgem (2008) 'Energy supply probe – initial findings report' p119 and FDS International (2008) 'Ofgem research report on vulnerable customers' engagement with the energy market'.

5.34 Cross-effects with other markets can also disadvantage low incomes:

- Lower internet access amongst the low income group may mean missing out on online tariff deals — often the cheapest — as well as being unable to use online price comparison.

- Lack of a bank account restricts the modes of payment.

Recent changes

5.35 There have been some improvements in fuel poverty due to improved home insulation, installation of gas central heating and better pensioner income but this has been offset by rising fuel prices.

5.36 The rise in fuel prices over the last few years has prompted Ofgem's increased involvement in fuel poverty issues and resulted in new licence conditions requiring suppliers not to discriminate between customers and to provide cost reflective tariffs.

5.37 In recent years, the gap in price between prepayment and direct debit has remained constant. However, the gap in prices between prepayment and standard credit has closed for electricity bills. This means that standard credit may soon be as disadvantageous a method of payment, compared to direct debit, as prepayment meters are currently.

6 FINANCIAL SERVICES

Main points

Financial exclusion

- Financial exclusion is a broad concept, linked to social exclusion and is a continuing priority for the government. The views on which financial products are most essential to day to day lives vary but bank accounts, or at the very least electronic payment facility and affordable credit are generally considered most important.

Bank accounts

- Seventeen per cent of low income households do not have a current account with a bank – about double the national average. Basic bank accounts have been developed by commercial banks, the Post Office and credit unions but tend to have limited functionality.

- Economic factors seem to be the guiding principle in the location of bank branches, rather than purposeful avoidance of low income individuals and areas. The accounts on offer may not suit the budgeting and transaction needs of low income individuals. Onerous ID requirements to opening an account are also an inhibitor affecting the poorest the most.

- Insufficient funds charges bear heavily on low income and vulnerable customers. Product revenues and costs are misaligned and there is cross subsidy from those paying charges to people on higher incomes.

- Demand side factors include: riskiness of the product (possibility of incurring charges), self-exclusion (perceived lack of need), financial literacy, psychological barriers, mistrust of suppliers and language and cultural barriers. Easy to understand accounts are seen as more important than interest rates on savings.

- Banks accounts are an important 'enabler' for other markets. They can pave the way for direct debit payments allowing a cheaper deal in markets such as energy (covered in the next section), providing access to other credit and insurance products, enabling the receipt of wage, pension and social security payments, cashing cheques, making remittances, storing money and paying for goods and services.

Insurance

- Around 80 per cent of all households have home contents insurance, falling to around 65 per cent of households with the lowest incomes. Tenants in the social rented sector have the lowest take up of contents insurance and one of the highest levels saying that they cannot afford it.

- Risk profiling ends up creating affordability issues for those on the lowest incomes with premiums tending to be higher in low income areas. Post codes provide a very simple basis on which insurers can differentiate customers. Evidence from price comparison sites suggests that premiums both for contents and car insurance are higher in districts with more low income households.

- Other barriers to home contents insurance include the suitability of the product to the needs of the poorest, for example high minimum sums insured, high excesses. Distrust of insurance companies may also play a role.

- A lack of access to insurance services tends to be correlated with not having access to a bank account suggesting the importance of direct debit payment.

Credit

- Low income individuals without a bank account or with a low credit rating may find their borrowing options limited to high cost forms of credit – the market is well developed in the UK but for some forms there is a limited range of suppliers. No credit checks required but as a result borrowers with good repayment records pay the same as others.

- Some demand side reasons for why low income individuals may turn to fringe products include inertia to search for better deals, tradition of using a certain lender, 'confidence' barrier to approaching banks, lack of a bank account, misunderstanding of certain pieces of information such as APR or being drawn by advertising.

Savings

- Nearly half of all low income households have no savings and may have to seek credit to cover shortfall in income or to meet unexpected payments.

- They tend to rely more heavily on informal savings mechanisms such as keeping cash and buying savings stamps.

- Demand side issues relating to access, knowledge and understanding and attractiveness of product on offer go further to explain observed disparities than structural supply side failures in the market for this product.

Cash machines

- Low income areas are more likely to lack access to a free cash machine within walking distance. Typically lower customer usage in such areas discourages operators, although Treasury initiatives are tackling this through subsidisation by banks.

Introduction

6.1 Access to and the cost and quality of financial services are important both in their own right and because financial services, particularly bank accounts, provide a gateway to other markets.

6.2 We have considered three areas of financial service – banking, credit and insurance. We have also considered the related issue of the extent of savings held by poor households. Having savings can provide households with the ability to manage large one-off items of expenditure, such as replacement of a domestic appliance or furniture, without recourse to high cost credit or hire-purchase arrangements. The main data source for this analysis is the Family Resources Survey 2007-08.

Bank accounts

6.3 Overall, as shown in Table 6.1 around nine per cent of all households in the UK do not have a current account. 17 per cent of low income households (that is, those in the bottom quintile) do not have a current account. Overall, therefore, low income households are twice as likely to lack a current account as households on average. Low income households account for 40 per cent of all households without current account.

Table 6.1: Households with/without current account by income quintile

Group	**Proportion of households without current account**
Whole population	9%
Bottom income quintile	17%
2nd	12%
3rd	7%
4th	4%
Top income quintile	3%

Source: Family Resources Survey 2007/08

Tenure, economic status, family type, disability and country

6.4 Table 6.2 indicates that around a quarter of all households in social housing do not have a current account. Around a quarter of non-working, working-age households lack a current account, compared with just five per cent of working households. Around one-sixth of lone-parent households do not have a current account, higher than any other family type.

6.5 Households with disabled adults are twice as likely to lack a current account as households without disabled adults, with pensioner-households accounting for a large proportion of households with disability. Almost a fifth of low-income households with disabled adults lack current accounts.

6.6 Households in Northern Ireland are more likely to lack a bank account than households elsewhere in the UK and twice as likely as households in England. One quarter of low income households in Northern Ireland and Scotland lack a bank account.

6.7 Generally, when attention is restricted to the low income households in any of these groups, the proportion without a bank account rises typically by up to 10 percentage points. Even allowing for (principally) tenure and work, low income consumers can therefore be seen to be particularly disadvantaged with regards to current accounts.

Table 6.2: Households without current accounts by income group

Group	Proportion of households in the group without a current account	Proportion of low income households in the group without a current account
Tenants in social rented accommodation	23%	31%
Tenants in private rented (including rent-free)	11%	20%
Owner occupiers with a mortgage	3%	5%
Owner occupiers without a mortgage	7%	12%
Working	5%	8%
Over 60 and not working	13%	17%
Other not working	25%	30%
Lone parents	17%	28%
Single adults	11%	22%
Couples with children	6%	12%
Couples without children	4%	11%
Pensioners Couple	7%	12%
Pensioners Single	14%	16%
Households without disabled adults	7%	15%
Households with one or more disabled adult	14%	20%
England	8%	16%
Scotland	12%	24%
Wales	11%	19%
Northern Ireland	15%	24%

Source: Family Resources Survey 2007/08

6.8 Solely having access to a bank account not does mean an individual is financially included. A recent year-long study by the European Commission compiled and reviewed existing research on financial exclusion in fourteen

European countries, including the UK. The Commission settled on the following definition of financial exclusion:

> Financial exclusion refers to a process whereby people encounter difficulties accessing and/or using financial services and products in the mainstream market that are appropriate to their needs and enable them to lead a normal social life in the society in which they belong.[36]

6.9 The paper considered bank accounts to be particularly essential to the point where social exclusion was effectively damaged without access to a bank account.

6.10 A 2004 Treasury paper in this area[37] describes 'financial exclusion' as a broad concept related to a lack of access to a range of financial services or a narrow concept reflecting particular circumstances such as: geographical exclusion; exclusion on the grounds that charges and prices are prohibitively high; or exclusion from marketing efforts. Self-exclusion is another aspect.

Price paid and quality

6.11 With bank accounts, access is a key issue although quality comes into play with substitutes such as a basic bank account and the Post Office Card Account which provide fewer facilities than a standard current account.

6.12 One of our interviewees in this field expressed concerns around basic bank accounts. While such accounts were believed to be a good way of getting people into the system, they may risk creating a new type of marginalisation through restrictions on their use.

6.13 The OFT's market study into personal current accounts highlighted concerns about the charges made when current accounts went into unauthorised overdraft.[38] These charges, which accounted for 30 per cent of bank

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[36] European Commission (2008) 'Financial services provision and prevention of financial exclusion' p9.
[37] HMTreasury (2004) 'Promoting financial inclusion'.
[38] OFT (2008) 'Personal current accounts in the UK: an OFT market study'.

revenue, were not transparent and there was 'a substantial misalignment between the banks' revenues and their costs on many of their products and services'. These charges fell particularly heavily on low income and other vulnerable customer groups. There was cross subsidy between those paying these charges and higher income, higher saving groups.

Cross effects

6.14 Having a current bank account paves the way for linked activities, which would be more inconvenient, costly, or even impossible, if it were not for a bank account. This includes: receiving wages, pension and social security payments, cashing cheques, making electronic payments of bills, remittances, storing and withdrawing money and paying for goods and services. As noted above, paying for energy by direct debit can save 10 per cent or more on the bill. Using a non-bank service to cash a cheque could cost £16.50 on a £200 cheque.[39]

Reasons for differential outcome

6.15 On the supply side, economic factors seem to be the guiding principal in the location of bank branches, which tend to have lower penetration of bank branches in low income areas.[40] Residents of low income areas have limited demand for banking services and little money to invest. Red-lining of certain areas was not identified in the 2000 FSA study.[41]

6.16 Another factor is the need to provide appropriate identification documents, namely a passport or driving licence and proof of residence such as a utility bill, to open a bank account. This was confirmed as an important issue in a number of interviews. We were told that 40 per cent of individuals from a sample of social housing tenants did not have two or more forms of

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[39] Save the Children and Family Welfare Association (2007) 'The poverty premium: How poor households pay more for essential goods and services'.

[40] FSA (2000) 'In or out? Financial exclusion: a literature and research review'.

[41] FSA (2000) 'In or out? Financial exclusion: a literature and research review'.

identification. We were also told that staff in bank branches may not be adequately trained as to which documents, aside from passport and driving licence, are acceptable, and thus it is not sufficient to simply to expand the list of accepted documents in the guidelines. There may be a certain risk aversion amongst bank staff in accepting alternative documents due to possible personal liability for money laundering.

6.17 On the demand side, the product may not be suitable to the financial needs of the poor — the FSA reported that this plays a bigger role than screening of applicants for a bank account by the banks. Standard current accounts may be unsuitable due to the lack of transparency, possibility to become overdrawn and incur charges, which makes owning one particularly risky for those on unpredictable incomes, An individual with low and unpredictable income may find that the costs of having a bank account (for example, from going overdrawn) may outweigh its benefits (for example, cost savings made through direct debit payments).

6.18 There is also a body of evidence on the contribution of demand side factors such as financial literacy, psychological barriers and mistrust of suppliers, language and cultural barriers. Having a low income has been linked to a mistrust of financial service providers. Self exclusion is also important — where an individual believes there is little point in applying for a financial product because they expect to be refused. Kempson (1998) reported that many low income people thought that a bank would look askance at the small sum of money they had to pay into their accounts.[42]

6.19 We note that there are different levels and types of financial capability among low income individuals although many commentators suggest low income individuals tend to be good at budgeting.[43] In another study, commissioned by the FSA, which primarily examined the relationship between financial capability and psychological wellbeing, it was stressed

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[42] Kempson (1998) 'Savings and low income and ethnic minority households', London: Personal Investment Authority.
[43] This has come across particularly during some of our interviews.

that the relationship between an individual's income and their financial management skills was complex and merited further attention.[44]

Recent changes

6.20 HM Treasury maintains a webpage on the issue of financial inclusion,[45] which it sees as a continuing key priority for the government. The proportion of people lacking any kind of bank account has come down significantly in the last decade. This is true for people on low incomes as well as the population as a whole.[46]

6.21 Some of this reduction is, though, due to the introduction of the Post Office Card Account (POCA). The POCA has much less functionality than a standard current account. Most notably, it does not have a direct debit card or an overdraft facility. The number of households relying on a POCA as their sole bank account is small, and mainly confined to low income households where around five per cent have a POCA as their sole account. Almost no households in the top half of the distribution rely on a POCA as their only bank account. This means that what was once an access issue (not having a bank account) may now become a quality issue (having a bank account that is less useful than the norm). This interpretation was supported by some of our interviews. It should be noted that consideration is being given to increasing the account's functionality with plans to allow cash withdrawal from post office cash machines next year.

Insurance

6.22 Around 80 per cent of all households have home contents insurance. This falls to around 65 per cent for households with the lowest incomes. A quarter of low-income households say that they cannot afford contents insurance.

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[44] FSA (2009) 'Financial capability and wellbeing: Evidence from the BHPS', Occasional Paper Series 34.
[45] HM Treasury webpage on financial inclusion, www.hm-treasury.gov.uk/fin_inclusion_index.htm
[46] MacInnes, Kenway, Parekh (2009) 'Monitoring Poverty and Social Exclusion', Joseph Rowntree Foundation.

6.23 Tenants in the social rented sector have the lowest take up of contents insurance and show one of the highest levels saying that they cannot afford it. Working age but workless and lone parents are two groups which also show high levels of inability to afford insurance. These results are summarised in Table 6.3.

Table 6.3: Households without contents insurance

Group	Proportion of households in the group with insurance	Proportion of households in the group who 'can't afford' insurance	Proportion of households in the group who 'don't need' insurance
Total	81%	12%	8%
Bottom income quintile	64%	26%	10%
2nd	72%	18%	10%
3rd	83%	9%	8%
4th	90%	4%	6%
Top income quintile	95%	2%	3%
Tenants in social rented (LA and HA)	42%	41%	17%
Tenants in private rented (including rent-free)	51%	25%	24%
Owner occupiers with a mortgage	95%	3%	2%
Owner occupiers without a mortgage	94%	3%	3%
Working	86%	8%	6%
Over 60 and not working	85%	7%	8%
Other not working	32%	53%	14%
Lone parents	49%	42%	9%
Single adults	68%	19%	13%
Couples with children	84%	10%	6%
Couples without children	89%	6%	5%
Pensioners Couple	94%	3%	3%
Pensioners Single	80%	8%	12%
Households without disabled adults	83%	10%	8%
Households with one or more disabled adult	76%	17%	8%

Group	Proportion of households in the group with insurance	Proportion of households in the group who 'can't afford' insurance	Proportion of households in the group who 'don't need' insurance
England	80%	12%	8%
Scotland	83%	12%	7%
Wales	80%	10%	8%
Northern Ireland	77%	13%	10%

Source: Family Resources Survey 2007/08

Price paid and quality

6.24 Risk profiling can result in the poor facing higher insurance premiums due to a variety of linked characteristics they exhibit. For both car and home contents insurance, low income areas tend to have higher premiums than areas with higher average incomes. This is likely to be related to differences in crime rates between the two areas. In these instances the premiums are determined by the insurer's risk assessment of the location not the income of the applicant.

6.25 A simple online price comparison exercise by Save the Children, obtained quotes from three leading insurers for a car and home located in an affluent part and the same located in a deprived area.[47] A difference of £150 on home contents insurance and £100 on car insurance per annum was reported.

6.26 We ran our own comparison on the difference in prices home contents insurance and car insurance based on the effect of area of residence. The areas that were used were Chiswick, London (W4) and Wallasey, Liverpool (CH44) as the affluent market; Bow, London (E3) and Toxteth, Liverpool

[47] Save the Children and Family Welfare Association (2007) 'The poverty premium: How poor households pay more for essential goods and services'.

(L8) as the lower income areas. The insurance requirement given was the same for each quote with only the postcode being changed.[48]

6.27 For home contents, there was a significant difference in the average price of insurance between both cities' postcodes. In London, there was a difference with Bow being almost a third more expensive when compared to Chiswick. In Liverpool, Toxteth was over 45 per cent more expensive than Wallasey. For car insurance, once again there was a major difference in the price of insurance between both cities' postcodes. Per annum it cost 32 per cent more to insure the same car in Bow than in Chiswick; 36 per cent more in Toxteth than in Wallasey.

Warranties

6.28 Another aspect of insurance which has not been studied in as much detail is the take up of extended warranties among low income individuals. A recent study[49] found that 'the lack of financial ability of low income consumers to replace products induces them to pay a potentially unnecessary and overpriced insurance premium.' This was the case even though products rarely break within the period covered, and repairs tend to cost no more than the warranty itself.

6.29 The authors undertook econometric estimation using data on the purchases of extended warranties from the electronic department of one retailer between 2003 and 2004. Higher income individuals were found to be less sensitive to the expected cost of replacement as well as to promotions (being less likely to purchase extended warranties even when the product is on promotion). Two possible explanations for this divergent behaviour between the two broad income groups suggested by the authors were that: lower income groups were more sensitive to the replacement cost due to more limited disposable income; and price promotions on products had a relatively higher impact on the purchasing behaviour of the lower income

[48] For home insurance, £5,000 of content was to be insured within a two bedroom, three-person family living in a flat. For Car insurance, a profile was used for a used Toyota Yaris to buy third party, fire and theft insurance. The site used to find comparisons was www.gocompare.com.
[49] Chen, Kalra and Sun (2009) 'Why do consumers buy extended service contracts?' Journal of Consumer Research, vol. 36, December 2009.

group. The second point is interesting and alludes to a 'psychological increased income effect realized from savings due to the price promotion'. Unadvertised price promotions which resulted in unexpected savings have also been found to increase the purchase of extended warranties. While the paper talks about the importance of marketing actions, it does not consider whether face-to-face selling of warranties has an effect.

6.30 The OFT conducted its own investigation into the market for extended warranties on domestic electrical goods in 2002.[50] The concern centred on competition not working effectively and consumers not being adequately informed or protected. Their customer survey showed that those most likely to purchase such products were in the social groups C2DE, which includes consumers on low income. This was supported by a 1999 study by Mintel, which reported that 16 per cent of respondents who were benefit-dependent had an extended warranty — most likely obtained as part of the store credit agreement.

Reasons for differential outcome

6.31 The insurance market is based on and sustained by risk assessment which can create affordability problems for certain low income individuals who are considered high risk. We did not find evidence to suggest that low income areas are being red-lined to the point where suppliers stop providing services to certain areas. The price discrimination is by area rather than individual income.

6.32 However, as the data show a lack of access to insurance services tends to be correlated with not having access to a bank account.[51] This may be down to cross-selling, the need for direct debit payments or general mistrust of financial products.

6.33 Other barriers to home contents insurance have been identified as high minimum sums insured, high excesses and a move away from indemnity

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[50] Office of Fair Trading (2002) 'Extended warranties on domestic electrical goods' A report on an OFT investigation, OFT 387, www.oft.gov.uk/shared_oft/reports/consumer_protection/oft387.pdf

[51] See Table 6.5 under Cross-effects later in this chapter.

insurance and catastrophe-only.[52] More than one of our interviewees agreed that the suitability of the product to the needs of the poorest was an issue. It was also pointed out to us that people sometimes make a conscious choice not to take out home contents insurance and thus its full benefits need to be understood before presuming it is good for everyone. Insurance companies also appear to be viewed with some distrust, with several studies reporting financially excluded people were dubious whether their claims would be paid out.[53]

Recent changes

6.34 Unlike bank accounts, there has been little change over the past decade in the proportion of people, particularly on low incomes, who have home contents insurance. According to the Expenditure and Food Survey, which has data on this going back further than the Family Resources Survey, the proportion of households without home contents insurance was the same in 2007 as it was in 1997. This was true across all income quintiles.[54]

6.35 This lack of progress comes despite the fact that access to both banking and home contents insurance were given equal priority in the 1999 report from the Social Exclusion Unit's Policy Action Task Force [55]

Credit

Price paid and quality

6.36 Low-income consumers without a bank account or with a poor credit history may find that they are excluded from the mainstream credit market and turn instead to credit options which do not entail as thorough a check on the borrower. In the UK, some of these options include sub-prime credit stores, mail-order catalogues, payday loans, home-collected credit,

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[52] FSA (2000) 'In or out? Financial exclusion: a literature and research review'.
[53] FSA (2000) 'In or out? Financial exclusion: a literature and research review'.
[54] See MacInnes, Kenway, Parekh, Monitoring Poverty and Social Exclusion 2009, Joseph Rowntree Foundation, 2009.
[55] See further discussion in NPI report, Kenway (2007) '*A snapshot of financial inclusion: policy and practice in the UK 2007'.*

pawnshops and buy-back stores. Credit unions, which have been noted for providing lower cost credit, remain underdeveloped in the UK relative to countries such as Ireland and the United States.[56]

6.37 The OFT has recently published a research report on High Cost Credit.[57] This sets out the different forms of credit available and the charges levied. The main credit options reviewed were:

Mainstream products

- Unsecured personal loan (with credit check), usually £5,000 - £7,500, nine – 12 per cent APR.

- Overdraft available on all except basic bank account, variable amounts, 10 – 20 per cent or higher.

- Credit card, widely available, minimum monthly repayment, 15 – 19 per cent but higher if poor credit record.

Specialist high- relative cost credit products

- Home collected credit, short to medium term unsecured loans, monthly repayments collected by agents, average value £300. Typical charges £40 - £80 per £100 borrowed, 150 – 500 per cent APR. Four main suppliers.

- Pawnbroking, small loans secured against an item of value, for example, jewellery for limited period. Interest of seven per cent per month equivalent to 100 APR. Fragmented sector with 900 outlets.

- Payday loans, short term cash advances secured by post-dated cheque or access to current account, £200 - £750, charges typically

[56] Europe Economics (2009) 'High cost consumer credit. A report by Europe Economics for the OFT. International Research: Case studies on Ireland, Germany and the United States.' December 2009.

[57] OFT (2009) 'Review of high cost credit. Interim research report' www.oft.gov.uk/shared_oft/reports/consumer_credit/oft1150.pdf

£25 per £100 advanced, equivalent to 1000 – 2000 per cent APR. Online options available. Large number of lenders.

Low cost specialist credit products

- Credit unions, loans mainly for people saving with the credit union, maximum charge two per cent per month (26.8 APR) but often one per cent (12.7 per cent APR) or less

- Social Fund, loans of up to £1,500 from government to people on benefits or very low income. No interest, repayable over two years.

6.38 Hire purchase is another form of credit which was not specifically listed in the OFT report. This can have an APR of 30 per cent but may also carry additional charges for service cover or insurance which can add to the cost of the product.

6.39 The OFT commissioned a consumer survey as part of this research. This found that for the users of the high cost credit products, the speed with which a loan could be arranged, usually one or two days, was an important consideration. Absence of credit checks and expectation that the loan would not be refused were also important. Affordability of repayments was a consideration but users did not usually make comparisons of alternatives before taking out a loan. Many users, particularly of home credit were continually dependent on these loans. At the same time users generally expressed themselves satisfied with the products they had chosen.

6.40 One of our interviewees considered products which allow access to affordable credit more important than having a bank account, although most agreed that an electronic payment facility, which banks provide the best fit for at present, was important.

Reasons for differential outcome

6.41 The UK has a relatively developed market for specialist credit products. Some parts of the market, such as pawnbroking and payday loans appear to be competitive with a large number of suppliers. However there are only four main suppliers of home collected credit which is of particular importance to people without bank accounts many of whom are in the lower income group. Home Credit was the subject of a Competition Commission investigation in 2006 which concluded that price competition was weak and charges were higher than in a competitive market. [58] Remedies to improve the operation of the market were proposed in preference to imposing a price cap.

6.42 Where credit checks are a requirement, as with the mainstream personal loans, the terms of the loan may vary with credit worthiness. Where credit checks are not made, as is the case with the higher cost loans, the charges are broadly the same for all users. Any higher risk associated with these forms of lending is averaged across all users. A low income user of home credit or payday loans with a good payment record will pay the same charges as one with a poor or no payment record. The Competition Commission found that, in the home credit market, an established credit record gave the borrower access to larger loans over longer periods.

6.43 The reasons behind why people may turn to fringe options for credit are not always straightforward and, aside from lack of access to mainstream options, may involve urgency of the need for credit, inertia to search for better deals, tradition of using a certain lender, for example, in the case of home credit, 'confidence' barrier to approaching banks, lack of a bank account, and misunderstanding of certain pieces of information such as APR[59]. It is also notable that the average size of high cost credit loans is generally relatively modest compared to mainstream unsecured personal loans although similar small scale borrowing is also available for people with credit cards and overdrafts.

Recent changes

6.44 The credit crisis has seen some cutback in the availability of high cost credit particularly amongst suppliers dependent on the wholesale financial market

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[58] Competition Commission (2006) 'Home credit market investigation', www.competition-commission.org.uk/rep_pub/reports/2006/fulltext/517.pdf

[59] OFT (2009) 'High cost consumer credit: emerging evidence from the review' www.oft.gov.uk/shared_oft/reports/consumer_credit/oft1150s.pdf

for funds. There is still a significant level of competition in the supply of loans of less than £1,000. Credit providers appear to have reduced the average size of loans rather than increasing their charges.[60]

6.45 The government is providing financial support to the credit union sector to give them more capital and there is further pressure for more responsible lending and control of the cost of lending. In December 2004, when the government directed funds to tackle financial inclusion issues, £36 million was put into the Growth Fund to increase the availability of affordable credit through Credit Unions and Community Development Finance Institutions (CDFIs). Since July 2006, over 120,000 loans with a value of over £52 million have been made.[61] Some credit unions, for instance the Bristol Credit Union, have also rolled out basic bank accounts which have greater functionality than the POCA. One of the interviewees believed that a mix of commercial, third sector (credit unions and community development financial institutions) sources was needed to meet the borrowing needs of the poor.

Savings

6.46 As shown in Table 6.4, around a quarter of all households in UK do not have any savings, while a further fifth have savings of less than £1,500.

6.47 Almost half of all households in low income (the bottom quintile) have no savings at all. Households in low income make up around a third of households without savings.

6.48 Around 60 per cent of all households in social housing have no savings; while a further 20 per cent have under £1500 in savings. Even so, thanks to their sheer weight of numbers, owner-occupiers account for the highest share of households with zero savings. 60 per cent of lone-parent households have no savings, rising to 75 per cent when controlled for poverty.

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[60] Ibid.
[61] DWP website, 'The Growth Fund Latest News', www.dwp.gov.uk/other-specialists/the-growth-fund/latest-news

6.49 The most striking difference here is by work status with around 65 per cent of the non-working (working-age) group having no savings compared with around 20 per cent for both the working and the non-working over 60s groups.

6.50 One third of households with disabled adult have no savings at all, compared to a quarter of households without disabled adult. Another fifth of households with disabled adults have savings under £1500.

6.51 There are also significant variations by country. Almost half of households in Northern Ireland have no savings at all, compared to around one quarter in England.

Table 6.4: Households with no or low savings

Group	Proportion of households in the group with no savings	Proportion of households in the group with <£1,500 savings	Proportion of households in the group with >£1,500 savings
Total	28%	20%	52%
Bottom income quintile	46%	19%	35%
2nd	38%	23%	39%
3rd	28%	22%	50%
4th	18%	22%	60%
Top income quintile	9%	16%	75%
Tenants in social rented (LA and HA)	60%	22%	18%
Tenants in private rented, including rent free	41%	27%	32%
Owner occupiers with a mortgage	20%	25%	55%
Owner occupiers without a mortgage	16%	12%	72%
Working	24%	23%	53%
Over 60 and not working	26%	15%	58%
Other not working	66%	17%	17%
Lone parents	61%	24%	15%
Single adults	38%	22%	40%
Couples with children	28%	25%	47%
Couples without children	20%	21%	60%
Pensioners Couple	16%	12%	72%
Pensioners Single	25%	17%	58%
Households without disabled adults	25%	21%	54%

Group	Proportion of households in the group with no savings	Proportion of households in the group with <£1,500 savings	Proportion of households in the group with >£1,500 savings
Households with one or more disabled adult	34%	19%	47%
England	27%	20%	52%
Scotland	32%	21%	48%
Wales	38%	19%	44%
Northern Ireland	45%	16%	39%

Source: Family Resources Survey 2007/08

Cross effects

6.52 We have also looked at the whether there is any link between taking out contents insurance and either holding a current account or having savings. The main findings, as seen in Table 6.5, are:

- Lack of a current account is associated with a 30 per cent reduction in the likelihood of having contents insurance.
- Since a similar 30 per cent reduction in likelihood is also to be seen among low income households, possession/lack of current account appears to be related to whether a household has contents insurance as a factor in its own. However, the direction of causation, if any, is not clear.
- A lack of household savings is associated with around a 25 per cent reduction in the likelihood of having contents insurance, and with 30 per cent reduction when accounted for low income. For those with savings, the absence of need is at least as important as non-affordability. By contrast, among those with no savings, non-affordability is much the more important reason.

Table 6.5: Household contents insurance status by current account and savings

	Proportion of households that have contents insurance	Proportion of households that can't afford contents insurance	Proportion of households that don't need contents insurance	Total
Of all households without a current account	53%	35%	13%	100%
Of all households with a current account	83%	10%	7%	100%
Of all low income households without a current account	39%	50%	11%	100%
Of all low households with a current account	69%	21%	10%	100%
Of all households with zero savings	57%	31%	12%	100%
Of all households with <£1,500 savings	80%	11%	8%	100%
Of all households with >£1,500 savings	93%	2%	5%	100%
Of all low income households with zero savings	42%	46%	12%	100%
Of all low income households with <£1,500 savings	71%	21%	8%	100%
Of all low income households with >£1,500 savings	89%	3%	8%	100%

Source: Family Resources Survey 2007/08

6.53 In Table 6.6, we have examined the possibility of a relationship between holding a current account and having savings. The main findings are:

- 24 per cent of households without a current account have some savings. Just over half of them (13 per cent of the 24 per cent) have savings in excess of £1,500.

- That 23 per cent of households with a current account have no savings is not surprising. That a similar percentage of those without a current account nevertheless do have savings is. It is possible that low income individuals tend to rely more heavily on informal and less secure savings mechanisms such as keeping cash and buying savings stamps. These forms of saving will also earn no or less interest.

Table 6.6: Household savings status by current account

	Proportion of households with no savings	**Proportion of households with savings < £1,500**	**Proportion of households with savings > £1,500**	**Total**
Of all households without a current account	76%	10%	14%	100%
Of all households with a current account	23%	21%	55%	100%

Source: Family Resources Survey, 2007-08

Price paid and quality

6.54 Recently, there have been warnings on retailer Christmas savings schemes whereby retailers issue cards to customers who have the option of buying £1 stamps or putting money on these cards to spend later in store.[62] These schemes may not earn interest and carry greater risk as retailers do not keep records of customer savings and thus if the card is lost, so are all the savings.[63]

Cross effects

6.55 The OFT market study on personal current accounts in the UK featured the relationship between those who typically end up paying insufficient funds

[62] The Consumer Council (2009) 'Retailers' Savings Schemes Are A Disgrace Says Consumer Council' www.consumercouncil.org.uk/newsroom/482/retailers-savings-schemes-are-a-disgrace-says-consumer-council/

[63] A card could have potentially £50 on it with no limit on the number of cards per customer.

charges and their income/savings status.[64] It was noted that these customers typically have lower incomes and/or savings. Those with savings of less than £1,000 were significantly more likely to have been charged for going into an unarranged overdraft or for a refused payment over the last 12 months.

Reasons for differential outcome

6.56 The remit of the financial exclusion task force was extended to cover savings in 2008 and a report containing an overview of the existing levels of savings among low incomes was produced.[65] According to this study, 'there are no major structural failures in the supply of saving accounts.' The supply side shortcomings that do exist are related to a mismatch between products on offer and the needs of many on low income. The 'meta-barriers' (where supply side factors interact with and reinforce demand side counterparts) were identified as:

- Access: this covers physical and psychological, as with bank accounts.

- Knowledge and understanding: The provision of easy to understand accounts, for example with matched savings and bonus payments, have been shown to be more effective than interest rates or other financial incentives. Trusted intermediaries and third sector organisations can also play a role in reaching those on the lowest incomes.

- Attractiveness of formal products: Many people on low incomes prefer to save informally for known expenditure for instance through Christmas savings schemes. Seeing savings mount up appears to appeal suggesting a passbook or something similar attached to a conventional savings account would be attractive.

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[64] OFT (2008) 'Personal current accounts in the UK: an OFT market study'.

[65] Kempson and Finney (2009) 'Saving in lower-income households: a review of the evidence, summary' www.pfrc.bris.ac.uk/publications/pensions_savings/Reports/2009_6b_FITF_Saving.pdf

6.57 'Rainy day' saving that is, regular saving with a non-specific purpose in mind appears to be engrained in the psyche from an early age. The research also suggested that having an unstable income is potentially more important in explaining savings exclusion than having a low income.

6.58 The internet can also assist in the search for the best savings account, as with other financial products, and a number of savings accounts are online accounts only.

Recent changes

6.59 Savings Gateway, due to be launched in 2010, is a cash savings account designed to encourage low income workers to save through providing a 50 pence matching contribution for every £1 saved. The scheme aims also to promote financial inclusion through engagement with mainstream financial services.

6.60 Pilots of the scheme were run and the participants followed up two years at the maturity of their account to see whether there had been any long-term changes in savings behaviour and attitude. It was reported that the percentage of households saying they did not save at all had fallen to 18 per cent at account maturity from 31 per cent at account opening.

Cash machines

Price paid and quality

6.61 Another issue was highlighted in 2006 by the ATM Working Group which identified 309 clusters of low-income areas lacking a free cash machine within a one km radius.[66] Charges of up to £3 per withdrawal most disadvantage those withdrawing small sums of money frequently.

[66] ATM Working Group (2006) 'Cash machines – meeting consumer needs'.

Reasons for differential outcome

6.62 Typically lower customer usage in low income areas discourages operators from placing machines in these areas, as they stand to receive less in interchange fees from the banks.[67]

Recent changes

6.63 The Treasury has been working together with banks to address this issue — a financial inclusion premium, of 33-50 per cent per transaction funded by the bank or building society, is paid to cash machine operators to incentivise the establishment of ATMs at sites with lower customer-use. A press release in December 2008 stated that 527 new free cash machines were already in operation in low-income areas with plans for the placement of a further 136.[68]

[67] ATM Working Group (2006) 'Cash machines – meeting consumer needs'.
[68] www.hm-treasury.gov.uk/press_139_08.htm

7 TRANSPORT

Main points

- Car ownership acts as an enabler, allowing access to a larger range of destinations, wider range of employment opportunities and arguably lower food prices.
- Fifty-four per cent of individuals in the lowest income quintile do not own a car, compared with 26 per cent of the population.
- There is relationship between car ownership and employment, with car ownership representing both cause (you need a car to get to work) and effect (not working means you cannot afford a car).
- The risk of bearing significant financial cost in case of cancellation or missing of pre-booked trains is believed to result in suppressed demand.
- The marginal cost of travelling with a family via public transport is higher than that of private transport.
- The working poor are also more likely to work non-traditional hours when public transport services often cease or run less frequently.

Access, quality and price paid

7.1 Ownership of a car may be important both in influencing the level of household income — car drivers are likely to have a wider range of employment opportunities — and household expenditure — for example, a car may give greater access to cheaper food outlets and allow for more bulk buying. Research by Fol et al (2007)[69] showed that car use tends to be positively correlated with accessing a larger range of destinations, higher employment rates and salaries, and reduced disparities in inter-ethnic levels

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[69] Fol, Dupuy and Coutard (2007) 'Transport policy and the car divide in the UK, the US and France: beyond the environmental debate' International Journal of Urban and Regional Research.

of unemployment. It is difficult to attribute a direction of causation to this finding.

7.2 Without access to adequate means of transportation, the poor are at risk of facing social exclusion, as they are unable to access food shopping, financial, leisure, health and education facilities that are not within walking distance.[70] In addition, for car owners the marginal cost of a journey can be less than half the cost of public transport. This is particularly significant for family travel.[71]

7.3 We were told that for people on low incomes and without a car, the fear of being stranded on public transport limited their travel opportunities. Examples of this are public transport not serving hospitals after 6.30pm and the limited validity of cheap train fares with the risk of having to pay full fare if the specific train is missed.

7.4 Over half of the households which do not own a car or van are in the bottom income quintile, see Table 7.1, and over 40 per cent of all of those who are not car owners are in the bottom quintile.

Table 7.1: Car or van ownership by income group

Group	**Proportion of households in the group without a car or van**
Whole population	26%
Bottom income quintile	54%
2nd	37%
3rd	18%
4th	11%
Top income quintile	9%

Source: National Travel Survey, 2007

[70] For a list of references on this topic see Mackey and Hine (2004) 'Transport disadvantage in rural Northern Ireland'.
[71] Northern Ireland General Consumer Council (2001) 'The transport trap – How transport disadvantages poorer people'.

7.5 Within the low income group there is a low level of car ownership for most demographic groups as shown in Table 7.2. It is notable that car ownership is much higher, even in the low income group, amongst those in full or part-time employment. However that in itself does not show whether car ownership has led to employment or whether spending on car ownership is a priority for those receiving regular income.

7.6 Though analysis of car ownership by presence of disabled adult in the household was not possible within the cited source, it does seem self evident that a disabled adult household without access to private transport is much more disadvantaged than a household with its own car.

7.7 Other research in Wales and Northern Ireland[72] showed that four fifths of working households in all but the largest cities used a car to get to work. So the differences we see by work status represent both cause (you need a car to get to work) and effect (not working means you have less money so cannot afford a car). Fol et al (2007) cite lack of adequate transportation as one of the reasons most frequently given by government agencies to account for unemployment.

[72] See, for instance, Kenway, Parsons, Carr, Palmer (2005) 'Monitoring Poverty and Social Exclusion in Wales' and Kenway, MacInnes, Palmer (2006) 'Monitoring Poverty and Social Exclusion in Northern Ireland'.

Table 7.2: Car or van ownership by various characteristics

Group	Proportion of households in the group without a car	Proportion of poor households in the group without a car
Total	26%	54%
Single parents	49%	65%
Single adults	39%	70%
Couples with children	10%	32%
Two or more adults no children	13%	36%
Single pensioners	68%	81%
Pensioner couple	21%	32%
Full-time	10%	22%
Part-time	24%	39%
Retired/permanently sick	44%	58%
Other non-working, including unemployed, students and looking after home/family	58%	66%
London Boroughs	40%	64%
Met built-up areas	33%	61%
Other urban over 250K	24%	52%
Urban over 25K to 250K	25%	52%
Urban over 10K to 25K	24%	51%
Urban over 3K to 10K	21%	51%
Rural	11%	34%

Source: National Travel Survey,2007

7.8 A comparative study by Fol et al (2007) showed that the percentage of poor households owning a car in the UK was much lower than that in the US and France. Household car ownership for the lowest quintile, based on data from 2004, was 74 per cent in the US compared with 42 per cent in France and 35 per cent in the UK.

7.9 Following similar programmes in the US and France, UK public auto programmes such as the Wheels to Work[73] scheme have emerged, but in the UK, these programmes usually loan scooters rather than cars. Fol et al (2007) claim this further excludes the poor most at risk of social exclusion, for example, young mothers, whereas in the US young single mothers are the main beneficiaries of auto programmes.

7.10 Even in urban areas, where public transportation may be more readily available, the employed poor are often disadvantaged within the public transport system. According to Hine and Mitchell (2001)[74] the poor are more likely to work non-traditional work hours, such as late nights, when some transport services cease, and others run less frequently. When constrained for time, this is even more of a problem. This is also a further problem for women, who are more reluctant to travel at night, especially when facing long waits.

7.11 In fact, car ownership and use varies substantially by gender. Women are only slightly less likely to live in a household without a car, but they are much less likely to be the 'main driver'[75]

7.12 We were told that cheap rail tickets purchased in advanced can benefit people on low incomes but carry risks which may deter use. If the journey is disrupted, and the individual does not have resources to purchase a much more expensive ticket on the spot or a taxi, they face problems of being stranded. The procedure if a journey is cancelled or missed is often confusing. A solution may be better ticket insurance and better information for those stranded. An inter-linkage also exists here, as not having access to internet may limit access to the cheapest tickets.

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[73] Wheels-to-work is a leasing scheme aimed at helping people get over the initial problem of getting to work or training where no suitable alternative transport exists.
[74] Hine and Mitchell (2001) 'Better for everyone? Travel experiences and transport exclusion' Urban Studies Vol 38.
[75] Department of Transport (2007) 'The National Travel Survey'.

Reason for differential outcome

7.13 Variations in car dependency are different based on geographic area and level of public transport system — it is a very localised issue. In rural areas where there is limited or no public transport system, car dependency is much higher than in urban areas. Although, in urban areas, the popularity of facilities being located outside of city centres also makes it difficult for people without a car to access them.

7.14 Fol et al (2007) believe that low-income car ownership is lower in the UK than France and US because UK public authorities have chosen to subsidise auto-ownership and automobility of the poor to a far less degree. Although, they admit further research would be necessary to confirm this conclusion. Hine and Mitchell (2001) claim the transport disadvantages of the poor are often overlooked because the political agenda tends to put more focus on economic and environmental, rather than social aspects.

7.15 For the working poor, public transportation is often a problem because the transport system tends to cater to those working traditional hours. When working non-traditional hours, they face less reliable public transportation.

7.16 According to Church at al (2001), even when public transport is available, the poor often face social exclusion because they are more likely to face time and income constraints.[76] Distance and physical access of bus stops are a problem at night and in poor weather. For example, trains tend to be more time efficient than buses, and if a poor individual was able to take a train, they may be able to reach a destination. But, because of their income constraints, they would have to choose the less expensive method of bus, and do not have enough time to travel to and from their destination.

7.17 Problems associated with lack of access to a car may be more accentuated for certain groups of poor, such as the elderly, women or mothers. Reasons for this include inability to walk to bus stops or train stations, fear of travelling alone at night, or time constraints and problems with carrying children on public transport.

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[76] Church, Frost and Sullivan (2000) 'Transport and social exclusion in London. Transport Policy.

7.18 Without a car, the poor may be constrained to lower paying jobs because they do not have the means to travel to higher paying jobs, for which they may be qualified. However, the evidence on this is contested. The review by Fol et al points out research suggesting that low-income mothers in particular limit their job search to the local area as they know they lack the skills required to be competitive on the broader job market.[77] Not having a car compounds the original problem.

7.19 As discussed earlier the uncertainty and risk associated with making a pre-booked train journey can contribute to suppressed demand although this is difficult to measure.

Recent changes

7.20 There has been little change in rates of car ownership between different income quintiles in the last 10 years or so. This is true across all income quintiles. So, around half of households in the bottom fifth lacked a car in 1997, the same proportion as 2007.[78]

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[77] Hanson, S. and G. Pratt (1992) 'Dynamic dependencies: a geographic investigation of local labor markets', Economic Geography 68.4, 373–405 and Chapple, K. (2001) 'Time to work: job search strategies and commute time for women on welfare in San Francisco' Journal of Urban Affairs 23.2, 155–73.

[78] National Travel Survey, Department of Transport.

8 INTERNET

Main points

- The internet, like cars, acts as an enabler to other markets including employment and range of goods and services.
- Only a third of low income households have access, compared with 60 per cent of the population as a whole.
- However access at all income levels has increased significantly over the past decade.
- Lack of internet is high amongst the elderly and households in social housing, this pattern being more pronounced in the low income group.
- Evidence suggests the reasons for people not having internet are no longer predominantly because of financial constraints, but rather due to factors such as lack of confidence, skills or motivation.
- Less of a supply side issue in this market compared to others, suggesting further improvements in choice or prices are unlikely to engage the remaining subset of the population.
- Substantial cost savings can be attained through online shopping and price comparison: however, it would be erroneous to assume that simply having home access would spur people to use the internet for these purposes.

Levels of internet access

8.1 Access to the internet has developed rapidly during the past decade and continues to expand. Digital inclusion remains high on the agenda — the Digital Inclusion Task Force aims to 'help disadvantaged people benefit from new technologies of every type'. The pre-budget report 2009 announced a proposed 50p 'broadband tax' on all households in Britain with a phone line to finance the roll-out of superfast broadband across the country. Consumer

Focus' agenda for 2010 also incorporates digital inclusion as a key area of concern. The interest in internet access for the purpose of this study is twofold. First, it is a service in itself, and offers huge possibilities for communications and entertainment. Second, it is an entry point to other markets including employment and a range of goods and services. Price comparison sites for energy and financial services may be of particular value to people on lower incomes.

8.2 Table 8.1 shows that in 2007, internet access was enjoyed by only a third of households with low incomes compared with 60 per cent for the population as a whole. The figure for the top fifth is nearly 90 per cent.

8.3 More recent data suggests that the proportion of households lacking internet access has come down by around 10 percentage points in the last two years.[79] The vast majority of homes with internet access have broadband.

Table 8.1: Households without internet connection by income quintile

Group	Proportion of households lacking internet connection at home
Whole population	39%
Bottom income quintile	67%
2nd	56%
3rd	36%
4th	22%
Top income quintile	12%

Source: Expenditure and Food Survey, 2007

8.4 Table 8.2 sets out the analysis by demographic factors. Lack of an internet connection is high amongst older age groups and also amongst households in social housing and this pattern is more pronounced in the low income group.

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79 Office for National Statistics (2009), 'Internet Access, Households and Individuals'.

8.5 The differences in internet access between those in and out of work are interesting in this light, as lack of internet may itself be a barrier to finding work. In one way having connection to the internet develops ICT skills which is essential for the many jobs in the UK but on the other hand we were told that some of the manual jobs that a poor unemployed individual may be looking for, such as cleaning or construction, are less likely to be advertised online. As with car ownership discussed earlier, there is likely to be an element of both cause and effect operating here.

8.6 There are also notable variations by country. Households in Scotland, Wales and Northern Ireland are much more likely to lack domestic internet access than households in England. Even below this level, there is variation within England, where households in London and the South are much less likely to lack internet access than households in the Midlands and North.

Table 8.2: Lack of internet connection by distinguishing features

Group	Proportion lacking internet connection	Proportion of low income households lacking internet connection
Whole population	39%	67%
Single adult	66%	82%
Lone Parent	45%	54%
Couple without children	35%	66%
Couple with children	15%	40%
Head of households aged 15-24	45%	56%
25-44	24%	51%
45-64	29%	61%
65-74	59%	80%
75 and over	82%	88%
LA rental	67%	75%
RSL rental	65%	76%
Private renting	41%	57%
Owners with mortgage	17%	31%
Owned outright	49%	74%
Head of households works Full time	21%	46%
Part time or self employed	26%	38%
Unemployed or government training scheme	62%	72%
Other workless	48%	61%
Retired	71%	84%
England	38%	65%
Scotland	42%	70%
Wales	43%	56%
Northern Ireland	47%	75%

Source: Expenditure and Food Survey 2007

Use of the internet

8.7 The 2009 OxIS survey reported that individuals in the highest income category were more than twice as likely to use the internet at 97 per cent compared with individuals in the lowest income category (38 per cent).[80] The same survey found only 49 per cent of individuals with basic education (up to secondary school) used the internet compared with 93 per cent of those with a university education. Our interview also pointed to educational attainment rather than income as the main determining factor behind the degree of digital engagement.

8.8 Disability was also pointed out as a key source of exclusion — 41 per cent of people with a disability or health problems made use of the internet compared with 75 per cent of those without such issues.

8.9 According to this survey, the most popular uses in 2009 were related to travel plans, local events information and the news, followed by health information. However, the purpose of use was not broken down by income group.

Access, price paid and quality

8.10 The issue in this market is clearly one of access rather than the quality of service received or the price paid (those on low income do not systematically pay more than the non-poor and the internet often costs less than other common luxuries such as cable TV). High levels of material deprivation are generally associated with low levels of engagement with ICTs. In terms of causality, there is a body of evidence on social disengagement leading to digital disengagement but only anecdotal evidence on the reverse causality. Many neighbourhoods are found to be digitally unengaged but not materially deprived suggesting that digital

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[80] OxIS (2009) 'The Internet in Britain 2009' p16.

disengagement is also highly linked to factors such as lack of confidence, skills or motivation.[81]

8.11 Over time the number of individuals with broadband access at home has continued to increase, prices have fallen and choice has increased. This is the pattern one would expect with the development of a new technology. It is only recently that more than half of all households have had internet access making this a facility which is now the norm.

8.12 Despite these developments, there remains a core subset of the population who lack home access to the internet. A number of surveys have probed the reasons behind why people chose not to have internet at home. A 2009 survey by Ipsos Mori reported nine per cent individuals did not have access and cited financial constraints as the main reason for this but 13 per cent did not have access and said this was down to lack of interest or need.[82] The Oxford Internet Institute surveys[83] (conducted between 2005 and 2009) also found evidence of consolidation in the subset which remains without home access into those who cite reasons other than financial constraints.

8.13 The Ofcom study also examined the characteristics of those without home access to the internet. 30 per cent reported being confident in using a computer; 25 per cent said they were not confident; and 45 per cent had not used a computer before. Almost 73 per cent said they had little or no knowledge of the internet.

8.14 Despite this, 36 per cent of those without home access reported being proxy users in the sense that they asked family or friends to carry out tasks on the internet on their behalf. It was pointed out to us that proxy users can generally only provide a more limited service, and in any case, the success of this method has not been formally examined.

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[81] Longley and Singleton (2008) 'Social deprivation and digital exclusion in England', UCL Working Paper Series, Paper 145.
[82] Ofcom (2009) 'Accessing the internet at home: a quantitative and qualitative study among people without the internet at home by Ipsos Mori', Research Document, 10 June 2009.
[83] Available at www.oii.ox.ac.uk/microsites/oxis/publications.cfm

8.15 While on the face of it, it appears that these individuals do not need or want initiatives to get them engaged, the issue is more complex in that often the very people who say they are not interested are also unlikely to be able to afford it.[84] Tenure effects show up in the data with those in social rented accommodation particularly likely to be not to be engaged with the internet. Geographic disparities are also present across England. Those who are most materially deprived and digitally excluded are heavily concentrated in the north, few in London.[85]

Reasons for differential outcome

Supply side

8.16 There has been a notable improvement in the availability, quality and price of internet connections, which has driven growth in home access over the last decade. Market forces can only go so far as the majority of non-users say they do not use the internet out of choice. Between 2003 and 2007, the proportion of those citing cost as the primary reason for being excluded has decreased (even though this must be interpreted with due caution as people's perception of their need may be linked to their budgetary constraints). Overall, there seems to be less of a supply side issue in this market as compared with the others we have looked at and further improvements in choice or prices through increased competition are unlikely to engage the remaining subset of the population.

Demand side

8.17 Demand side issues in this market are more complex and interlinked with social deprivation.

[84] This is supported by the interview we conducted.
[85] Longley and Singleton (2008) 'Social deprivation and digital exclusion in England', UCL Working Paper Series, Paper 145.

8.18 Aside from access issues, discussed above, the main barriers to digital engagement have been identified in the literature as:[86]

- Motivation: this relates to the perceived benefits to be gained from accessing the internet.
- Skills and confidence: This covers ability and confidence to use the technology, as well as concerns over security.

8.19 We were told that the issue of skills and confidence to use the technology were central and policies which simply aimed to provide access without any basic instructions on use and follow-up overlooked this issue. There may also be some cultural bounds if the internet or use of computers is not considered to be a core part of a particular community.[87]

Recent changes

8.20 Access to the internet, and to broadband, is an area where progress is visible even over a couple of years. Although the figures are not available by income, recent statistics show that the proportion of households with internet increased by 10 percentage points between 2007 and 2009.[88] Among those with internet access at home, the proportion who had broadband, by far the superior product, increased as well.

8.21 Unlike, for instance, access to insurance products, this market is not mature and the proportion of households lacking access is coming down each year. This means that one of the key tasks is to monitor how, for instance, access improves for poor households in social rented accommodation.

8.22 The Home Access Programme, established in 2007, aims to ensure that every young learner (aged five to 19) in maintained education has access to increased ICT resources at home. The Welsh Assembly Government

[86] See for example Communities and Local Government (2008) 'Understanding digital exclusion research report'.
[87] This point was raised during one of our interviews in reference to certain young people from afro-Caribbean backgrounds.
[88] Office for National Statistics (2009) 'Internet Access, Households and Individuals' .

launched the Communities@One programme in January 2006 with the aim of helping to achieve social inclusion in the most disadvantaged areas of Wales through the use of digital technology.

8.23 We were told that recent research based on the corresponding fields model suggests that the internet is used by individuals to build on advantages that they already possess, for example those already endowed with high levels of education are more likely to make use of the internet for educational purposes.

Cross-effects

Online savings

8.24 Internet access creates the possibility of gaining advantages in other markets such as energy, financial services, holidays, electronic goods and so on through price comparison sites and shopping online.

8.25 Further analysis of online shopping habits from the Expenditure and Food Survey, and the possible savings that may result, were inconclusive. In the main, this is because, according to the dataset for 2007, online shopping was still only a very small part of overall expenditure. Only around three per cent of the survey sample shopped online for food in the survey period.

8.26 Taking a different data source (Internet Access, Households and Individuals, Office for National Statistics, 2009), we see that around half of UK adults had made some online purchase in the previous three months. Around half of those had purchased music or films. Around a half had bought household goods, and a fifth had bought food or groceries.

8.27 A report commissioned by the Post Office in 2008 estimated the monthly direct financial benefits of having broadband in the home was in the order of £70 for the average UK household (ranging from £23 for the 10 per cent of households with the lowest income to £148 for the 10 per cent with the highest income).[89] The majority of this (£63 out of £70) came from reduced household spend on 15 cost categories including insurance, mortgage interest, electronics, holiday and clothing. The remaining savings were linked to increased income from searching for the best online deals for household investments.

8.28 However one cannot assume that everyone having an internet connection will actually make use of all its cost saving opportunities and thus the figures above should not be taken at face value. It is not the norm to purchase online and as such, it is not clear that this is a market that at the moment serves the poor less well.

Other benefits

8.29 Aside from the direct financial benefits, other important benefits include:

- Improvement in employment prospects: Having a computer can raise levels of ICT skills which is in turn important for employability.
- Education: Using a computer and Internet at home improves ICT skills of children as well as proving a key tool for research.
- Entertainment and communication: The growing popularity of the Internet as a medium of entertainment and social networking risks a new form of exclusion.
- Access to public services: Obtaining information about public services such as taxes and health is also cited as one of the main uses of the Internet by adults.

[89] SQW Consulting (2008) 'Broadband in the home: an analysis of the financial costs and benefits', Final report to the Post Office.

9 'ENABLING' PRODUCTS

9.1 It is clear from our analysis of national statistics that people in lower income groups have a lower take-up of certain key products, the possession of which can help improve their access to or choice of other products where, as outlined above, they are at a disadvantage.

9.2 The principal 'enabling' products that we have focused on are:

- bank accounts, and in particular current accounts, which provide access to a wider range of financial products and, potentially, to lower cost credit. The ability to pay through direct debit allows access to cheaper deals. At present 17 per cent of low income households do not have current account compared with nine per cent for households as a whole

- car ownership which allows consumers greater choice in where to shop and provides access to lower prices. Over half of low income households do not own a car or van compared to 26 per cent for all households

- personal internet access which reduces search costs in finding lower priced products and provides direct access to suppliers. This applies across a wide range of markets. At present 67 per cent of low income households do not have home internet connection compared to 39 per cent of all households.

9.3 Table 9.1 sets out, in summary form, the sorts of wider benefits which take-up of the 'enabling' products can deliver. This analysis has been confined to benefits in the markets covered in this study but 'enabling' products are also likely to have significant wider benefits in other areas such as access to employment, education, leisure and entertainment.

Table 9.1: 'Enabling' products can improve access to other markets

Access to ↓has impact on →	Banking	Credit	Insurance	Food	Energy	Car ownership	Internet
Banking		Increases credit options	Direct debit/SO payment	Debit card	Direct debit/SO payment		ISP contract
Credit			Credit score can affect price	Credit card		Car loan	
Car ownership	Access to remote branches			Access to cheaper stores, bulk buy			
Internet	On line banking and saving	On line credit	Price comparison and on line deals	Home delivery	Price comparison and on line deals		

Source: Europe Economics

9.4 It is difficult to quantify the extent of the benefit of this sort that might be available. There is also likely to be a difference between the hypothetical benefit available from, for example, on-line price comparison shopping for insurance, and actual use of such opportunities. However some indication can be obtained from analysis of the Expenditure and Food Survey.

9.5 Table 9.2 shows the average food expenditure as a share of total expenditure, in percentages, for small lone-parent households with and without a car, for all the income quintiles.[90]

[90] The family composition variable in the EFS does not consider age. So for example, it clubs together all single adults, working age and pensioners. There are obvious differences in their expenditure patterns. Hence, in order to make sensible comparisons, food expenditure has been compared between households with/without cars within the 'small lone-parent' household type.

Table 9.2: Food expenditure in small lone-parent households with and without a car

Income quintiles	Average food expenditure as a share of total in households without cars	Average food expenditure as a share of total in households with at least 1 car	Overall average	Sample size
Poorest fifth	30%	20%	26%	91
Households in other four-fifths	16%	17%	16%	122
Total	25%	18%		213

Source: Expenditure and Food Survey 2007

9.6 Overall, lone-parent households without cars are likely to have higher food expenditure as a share of total expenditure than households with cars. The difference is about seven per cent points. In the lower income group, expenditure on food as a share of total expenditure is 10 per cent points higher in households without cars.

9.7 Given the distribution of lone parents across the income spectrum, it is simpler to compare the bottom fifth to the other four-fifths combined. The difference in average food expenditure share between households with and without cars is most pronounced in the bottom fifth income quintile and almost negligible in the other four-fifths.

9.8 This suggests that car ownership is a significant factor for this group of households in helping to reduce food bills. However the sample size is small and the findings should be treated as indicative rather than definitive.

9.9 Table 9.3 shows the variations in fuel bills for the same group of households with and without access to the internet.

Table 9.3: Fuel expenditure in small lone-parent families with and without internet access

Income quintile	Average fuel expenditure as a share of total in households with internet	Average fuel expenditure as a share of total in households without internet	Grand Total	Sample size
Poorest fifth	4%	6%	5%	91
Households in other four-fifths	7%	8%	8%	122
Grand Total	5%	7%	6%	213

Source: Expenditure and Food Survey 2007

9.10 In this case lone-parent households as a whole and the poorest group within the sample both show slightly higher fuel bills if they do not have internet access.

9.11 Access by low income groups to the key 'enabling products of banking and the internet has increased over the past decade but there are still significant levels of exclusion. Car ownership in this income group has remained static.

9.12 Internet access, for all income groups, has grown rapidly over the past decade and continues to grow. The potential savings to be made from internet purchases have been outlined in the previous section (8.27). An important consideration for the future will be to ensure that the lowest income group does not miss out on that growth.

10 CONCLUSIONS ON MARKETS AND LOW INCOME HOUSEHOLDS

Disadvantages facing households on low income

10.1 In our review of selected markets we have found a number of ways in which low income households can be disadvantaged. Disadvantage can be in terms of price paid, quality of product and ease of access. Specific disadvantages identified are summarised in Table 10.1. However it is important to add that not all households in the lower income group will suffer these disadvantages and also that some households in higher income groups may also be disadvantaged in the same way. Nonetheless more households in the lower income group are likely to be affected than in other income categories.

Table 10.1: Disadvantages facing households on low income

	Food	Energy	Financial services	Transport	Internet
Price	Higher in smaller local shops	10-15% premium for prepayment & standard tariff	Higher incidence of bank charges Insurance premiums 30 – 40% higher Use of high cost credit APR up to 1000% short term	Marginal cost of public transport higher than car Restricted terms for off peak fares	Lowest prices only available on internet Over £20/month potential benefit
Quality	Less choice, lower quality, but can be offset by local initiative	High level of switching to worse contracts	Standard bank accounts, credit products and insurance policies do not meet needs	Limited public transport services. Inconvenience	
Access	Large supermarkets may not be in residential areas		Fewer bank branches and ATMs in low income areas Bank account extends access to other products	Car ownership extends access to other products	Extends access to other products and lower prices

10.2 Three population sub-groups are likely to be disadvantaged across a range of markets. The first is the group made up of lone parent households. The second is the group of people living in social rented housing. The third is the group of people with disabilities. Lone parents and their children are far more likely to be in low income than people in other household types. But they are further disadvantaged in the different markets we looked at. For example, lone parent households are most likely to use a pre payment meter for their gas and electricity. They are also most likely to lack a car and most likely to lack a bank account.

10.3 Social housing is the housing tenure with the highest proportion of low income households. These households, even among low income groups, are also most likely to use a prepayment meter and lack domestic internet access. It is possible that people in social rented accommodation are less able to make the types of physical change to their properties that would enable them to access the internet or switch away from a prepayment meter.

10.4 The likelihood of low income in a household where one or more of the adults has a limiting disability is higher than average. Again, such households are additionally disadvantaged in a number of markets. Households with disabled adults are more likely to lack a bank account and more likely to use a prepayment meter. Moreover, when looking at markets such as transport, even if there is no difference in levels of access, someone with a disability is self evidently more reliant on transport, whether public or private.

Reasons for differential outcome

10.5 At the start of this report we identified (Table 2.1) a number of generic factors on both the supply and demand sides of markets which might explain why lower income groups would suffer disadvantages of this sort. We are now able to able to revisit that list and to see the extent to which there is any common pattern amongst the factors affecting individual markets.

10.6 As one might expect in dealing with such a disparate set of markets a number of the explanatory factors on the supply side are sector specific. On the demand side there is more (although not complete) commonality across markets. That also is to be expected since we are considering the behaviour of people who all share the common characteristic of low income.

The supply side

10.7 The supply side factors are summarised in Table 10.2. Concerns about market structure and a lack of effective competition appear in a number of markets and have been the subject of separate regulatory investigations. There are also factors that only feature in some markets and even then the interpretation may be different in each case.

10.8 Market structure is an issue in the food, energy and the financial services markets with examples of the exercise of market power. In the food market prices tend to be higher in smaller local outlets. In part this is due to higher costs of smaller outlets but it may also result in some instances from local market power. In energy and banking, charges that are not cost reflective operate at national and not just at local level. That leads to cross subsidy between customer groups to the disadvantage of households on low income and is an indication that competition is not working effectively.

10.9 Regulatory action has been taken to require cost reflective tariffs in the energy sector. The Competition Commission found charges above the competitive level in home credit and has introduced remedies to improve the operation of the market. Charges for high cost credit do not take into account the payment record and riskiness of individual borrowers (in contrast to mainstream lenders). As a result borrowers with a good payment record pay the same as those with a poor record, another form of cross subsidy.

10.10 We have identified a number of other pricing issues that affect low income households. Differences in the cost of supply feed through into energy tariffs (even if not fully cost reflective). As a result the cheapest deals are available for direct debit payment which is less used by low income households. In the food sector economies of scale in larger outlets and the greater buying power of the large chains result on lower prices in those outlets and also provide the basis for special pricing offers but lower income households may be less well placed to take advantage of these low prices.

In the financial sector provision of ATMs in certain areas has not been considered cost effective and has required government intervention to improve the supply. Risk based pricing of insurance products can result in significantly higher charges for people on low incomes.

10.11 These pricing practices vary from market to market but are, broadly, the approach to pricing that one would expect in a competitive market and are separate from the exercise of market power. Nonetheless, they can, particularly where they react with other features of the low income group such as below average take-up of bank accounts or low levels of saving, disadvantage low income households.

10.12 Location has been identified as an issue in both food and financial services (banking) with low income households being affected by the suppliers' decisions on where to site the largest and therefore cheapest supermarkets and on the location of bank branches.

10.13 Terms and conditions have been highlighted in transport and financial services and in both cases may be deterring use of particular products. Marketing practices provide a contrast with doorstep selling delivering poor value to the low income group while internet marketing has the potential to reduce costs for all users, including those on low income.

10.14 Products designed for the mainstream demand in a market may not meet the needs of lower income groups. In the banking sector it has taken government intervention to encourage the development of basic bank accounts suited to the needs of the lower income group. Similarly household insurance products with minimum sums insured or high excess payments may not meet the needs of this group and as a result take-up of insurance is deterred. In transport, public transport does not provide the same flexibility as car ownership and special fares which could be of benefit can be difficult to access.

10.15 Product design is closely related to the issue of innovation which is a feature of most of the markets reviewed. We have found examples of innovations that have benefited low income households ranging from targeted local food supply, through new, if expensive, forms of credit, to the potential offered on the internet. At the same time we have identified concerns, particularly in the financial services sector, that the mainstream products available, such as current and savings accounts and insurance policies, are not tailored to the needs of people on low income. This is in contrast to product development in food retailing with goods specifically targeted at different household budgets.

10.16 Innovation and product design which meets specific consumer needs should be stimulated in a competitive market. In some cases, for instance the development of basic bank accounts, the initiative for these developments has been led by government. It is difficult to judge whether this gap would have been filled if there had been more competition in the market. An alternative explanation could be that the limited demand for such products meant that they were not commercially viable. Government intervention being justified on grounds of equity rather than market structure. It is worth noting that where there is strong demand from low income households for financial products in the form of short term, small scale credit, the market has responded with a range of products with which users express satisfaction despite their high cost.

10.17 Internet developments represent a major and continuing source of innovation that are market led but the ability to benefit from these depends crucially on access which at present is less developed amongst the lower income group.

Table 10.2: Supply side factors relevant to differential treatment of the lower income group

	Food	Energy	Financial services	Transport	Internet
Market structure	Local market power can result in higher prices	Some tariffs not cost reflective. Regulator intervention on tariffs	Charges not cost reflective		
Cost of supply	Lower prices in larger outlets	Cost of prepayment meters	Cost of ATMs in certain areas. Government intervention		
Price discrimination	Special offers, bulk buys				
Pricing linked to payment method		Cheapest deals only on direct debit			
Risk based pricing			Insurance and credit use risk based prices		
Location	Supermarkets located away from residential area		Limited outlets in some areas		
Terms and conditions			Identity requirements	Terms for off peak travel restrictive	
Marketing practices		Doorstep selling often provides poor value	Internet marketing		
Product design		Government intervention on social tariffs	Some products have limited facilities or do not meet low income group needs.	Public transport not a good substitute for car ownership. Off peak fares can be	

	Food	Energy	Financial services	Transport	Internet
			Government intervention on basic accounts	difficult to access	
Innovation	Local initiatives to meet demand		New products have been developed including internet.	Off peak and concessionary fares provide benefit	Wide range of new opportunities for those with access

The demand side

10.18 As noted above there is much more commonality of explanatory factors on the demand side shown in Table 10.3 indicating that people in the lower income group face similar problems or have similar behavioural responses in the markets we have reviewed.

10.19 The budget constraint is, inevitably, a strong influence on how the lower income group respond to markets. In the food market this can lead to lower quality being accepted in order to reduce total cost. In other markets, such as insurance, products are seen as too costly and are not purchased.

10.20 Given a tight budget constraint it is perhaps surprising that loyalty to traditional suppliers is still a strong reason for some people not switching in both the energy and credit markets, despite paying higher charges. The affordability and ready availability of credit in terms of weekly repayments is seen as more important for budgeting than the APR being paid. This may also be linked to the information about the cost of these products not always being easy to understand. Easy to understand accounts may be more important to users than the associated charges. Energy and financial services involve more complex and less frequent decisions than weekly food shopping and the provision of good information about the choices available is correspondingly more important. That requirement is not confined to the needs of low income households but the impact of over-payment will have a more significance impact on the household budget for this group.

10.21 Concern about the penalties that might be paid by going into debt combined with low levels of saving lead to higher risk aversion in the lower income group. This can result in their not taking up products which have wider benefits, such a current account and direct debit and some off peak travel because of the potential for incurring unanticipated charges. Instead they may opt for higher priced products such as prepayment meters and extended warranties which carry lower risk of facing unexpected charges. With low income there is a premium attached to having certainty about regular payments.

10.22 We have also identified a number of behavioural features that can stand in the way of low income households getting better value in the marketplace. Mistrust of institutions or lack of confidence feature in both financial services and use of the internet. Since these have both been identified as 'enabling' products, this is an area of concern.

10.23 Cultural, social or educational issues have been identified in the food, energy and financial services markets. Loyalty to traditional suppliers is another behavioural trait that has been commented on above. These are not all negative. In food markets, provision of ethnic minority foods at local level can improve availability of quality products for lower income groups.

10.24 Finally, as highlighted in the previous section, the demand side factor which runs across all of the markets considered is the disadvantage which comes from a significant proportion of poorer customers not taking advantage of (or being able to take advantage of) the wider benefits which flow from use of key 'enabling' products. Lack of access to products in one market can result in adverse price effects in another market.

10.25 While difficult to quantify, the potential for cross market improvements in the position of poorer customers through improved access to 'enabling' products may have greater impact over a period of years than intervention on the supply side in individual markets. Improving the interactions between markets in order to achieve a better functioning of markets as a whole, may provide OFT with new policy options which go beyond its traditional focus on issues within individual sectors.

Table10.3: Demand side factors relevant to differential treatment of the lower income group.

Demand side	Food	Energy	Financial services	Transport	Internet
Budget constrained price/quality trade off	Lower quality goods accepted		Home insurance not a priority	Affordability of car ownership	
Mobility	Poor access to cheaper shops		Distance from bank branches	Location and inconvenience of public transport	
Limited information		Tariffs hard to understand	High cost of credit not always clear		
Risk aversion		Higher priced tariffs chosen to avoid debt	Risk of charges if overdrawn or payments refused. Use of extended warranties	Fear of breaching special terms for off peak fares can deter use	
Lack of savings			Leads to use of high cost credit		
Lack of confidence/mistrust of institutions			Mistrust of financial institutions		Lack of interest and lack of confidence obstacle to uptake
Inertia/constraints on switching		Loyalty to suppliers	Tradition of using particular forms of high cost credit		
Cultural/social/educational	Ethnic minority food supply	Literacy, numeracy	Language and cultural barriers		Educational level linked to use
Lower access to enabling	Bank account	Internet and bank	Online banking and	Bank account may	Bank account to sign

Demand side	Food	Energy	Financial services	Transport	Internet
products	provides more payment options; car provides better access to lower priced goods; online shopping.	account needed to get best tariffs.	price comparison sites; increased credit options with bank account; car provides better access to remote branches.	provide option for car loan.	up for ISP contract.
Product requirements	Local demand can stimulate new supply				

A ANNEXE LIST OF INTERVIEWS

	Interviewee	Organisation	Position	Sector of expertise
1	Adam Clark	Toynbee Hall	Financial Inclusion Manager	Financial services
2	Chris Goulden	Joseph Rowntree Foundation	Policy and Research Manager	Financial services
3	Elizabeth Dowler	University of Warwick	Professor of Food and Social Policy	Food
4	Ellen Helsper	LSE	Lecturer in the Media and Communications Department	Broadband
5	Gill Owen	Warwick Business School	Senior Research Fellow	Energy
6	Goretti Horgan	University of Ulster (NI)	Lecturer in Social Policy	Cross-sector
7	Graham Whitham	Save the Children Foundation	UK Policy Adviser on Poverty	Cross-sector/ financial services
8	Jonathan Stearn	Consumer Focus	Programme Leader	Energy/financial services/broadband
9	Margaret Grieco	Transport Research Institute, Edinburgh Napier University	Professor of Transport and Society	Transport
10	Martin Caraher	City University	Professor of Food and Health Policy	Food
11	Sharon Collard	Personal Finance Research Centre, University of Bristol	Deputy Director of the Personal Finance Research Centre and Senior Research Fellow	Financial services