**Blog Towards the Manifestos – APPG on Inclusive Growth**

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**Tackling the poverty premium is a solution to rising inequalities – here’s what the next Government needs to do**

It is no secret to anyone that a general election is fast approaching. [At Fair By Design](https://fairbydesign.com/), we have been thinking hard about what the next UK Government can do to eliminate [the poverty premium](https://fairbydesign.com/povertypremium/). This is the extra costs that people on low incomes are charged for things like credit, insurance and energy, because these products and services are not designed for people on low incomes.

Poverty premiums widen the gap between the poor and the wealthy. When people on low incomes pay between £240-300 on car insurance because they live in areas considered risky, or take out expensive loans at an extra cost of £201 a year because they are denied credit in mainstream banks, they will have even less disposable income to cover other essentials such as food and clothes. This is unfair because it penalises people living in poverty due to things they cannot control, such as where they can afford to live. This entrenches inequalities across different groups in society, as some have to pay way more than others to get the same essential products and services.

The good news is that the British public cares about rising inequality, with six in 10 people believing that the wealth gap should be reduced. This is [evidenced in a very recent poll](https://www.inclusivegrowth.co.uk/wp-content/uploads/2023/07/OPUK22986_-_APPG_on_Inclusive_Growth_-_Inequality_of_Wealth_-_Final_report-1.pdf), which also shows that the majority of people (65%) believe that financial wealth is the result of hard work, but also a consequence of factors outside people’s control.

This poll and other work in this area were discussed in [an event organised by the All-Party Parliamentary Group (APPG) on Inclusive Growth in partnership with The Policy Institute at King’s College London and The Fairness Foundation, as part of their Towards Manifestos programme](https://www.inclusivegrowth.co.uk/towards-the-manifestos-report/). It makes me hopeful to see a refreshed focus on such vital issues because, as the poll shows, there is plenty of potential to agree on some common ground. Yet as acknowledged in the polling report, many other solutions to inequality and poverty haven’t been included, such as interventions to help people with reducing costs. So, I would like to make my contribution and briefly outline some solutions to the poverty premium which would go a long way to tackling socio-economic inequalities. These are part of the Fair By Design election manifesto.

***Fair By Design’s election manifesto***

Action to eliminate the poverty premium would put, on average, [£430 back into the pockets of over 3.5 million households](https://fairbydesign.com/policy-advocacy/the-local-poverty-premium/) on low incomes. We have consulted with a range of stakeholders, including people living in poverty, to develop credible proposals for our manifesto, which do not have to mean extra funding from the Treasury. Here are the key things that the next Government could do to tackle the poverty premium in the UK:

1. Introduce a new social tariff in the energy market, targeted at low-income consumers who are struggling with energy costs and living on low incomes. During this extraordinary time of volatile energy prices, we know that people’s personal finances are under intense pressure because of the costs of energy. While the Government was able to offer unprecedented protection for households from high energy prices, many people in poverty and with higher energy needs (for example, those relying on medical equipment) are still struggling to pay for energy. A social tariff would benefit those most in need and stop the poorest from paying more. With energy prices predicted to remain high into the next decade, we urgently need long-term and targeted support so that everyone can afford to keep warm and safe.
2. Government to work with Ofgem, the energy regulator, to require energy companies to stop charging customers more if they pay for energy on receipt of bill rather than direct debit. This would save people on low incomes an average of £206 per year.
3. Government to develop a national financial inclusion strategy with clear timeframe and outcomes. This should include giving the Financial Conduct Authority (FCA), the financial services regulator, a new cross-cutting “have regard” requirement to consider financial inclusion across its work. This would provide clarity about who has accountability to tackle poverty premiums.
4. Require the FCA to investigate [how well the insurance market is meeting the needs of low-income consumers](https://twitter.com/FairByDesign/status/1658394652435775490), including how it is producing poverty premiums. The FCA should find out where and why people on low incomes are charged more for factors outside of their control, such as where they can afford to live. The car insurance market is of particular concern here. Following the investigation, Government should undertake a review of potential interventions, consulting on what policies would be needed to tackle the poverty premium in insurance.
5. Government to work with FCA so that it stops insurance companies from charging customers more because they can only afford to pay monthly for their insurance.
6. The Payment Systems Regulator (PSR) and utility regulators should work to ensure utility companies offer flexible, cheaper ways for people to pay bills; e.g., via [customer-controlled payment flexibility schemes such as Request to Pay](https://www.requesttopay.co.uk/).

Tackling the poverty premium is an achievable solution to make everyone better off. Whoever is in Government in a year or so will have the policy levers to make change happen, and also the public’s support to narrow inequalities. Let’s hope they listen and take decisive action.