

SPEAKER: Ian Guest: Financial Exclusion and the Poverty Premium

Prior to becoming Chief Executive of the South Yorkshire Credit Union, Ian had worked as a Trainee Advisor for the Citizens Advice Bureau where he had seen the fall out of the miners' strike and realised that more needed to be done for people who were permanently on benefits. He spoke about the poverty premium from his experience of people he met every day. The poverty premium refers to the extra that people on low income have to pay for goods and services, estimated at around £1,000 per annum. This is not just a financial cost, however; it is linked to poor housing, poor health, low educational attainment and poor job prospects. The areas covered in his talk were fuel, food, household goods and financial services.

Fuel: Most people on low income are on pre-payment meters, and there has been a big increase on companies putting people back on meters. Many people appreciate meters as a means of budgeting, but some are forced into it, for example if they are in arrears and can't make an arrangement to pay this back. They are unable to take advantage of dual fuel or direct debit discounts, and do not even get a discount on early payment. On average, they pay £340 a year extra. Because they are on fixed incomes, if they are unable to pay for extra heating in cold weather they self-disconnect and this is unrecorded; often they will only heat one room, causing dampness which leads to health problems. Another problem is that many companies do not recalibrate meters for up to 12 months to accommodate price changes, and then present customers with estimated bills of up to £84.

Food: Little research has been done on the extra poor people have to pay for food, but they are unable to access discounts at big supermarkets; they cannot lay out for a "big shop", nor do they have the transport to carry it home. They are thus forced to shop at local convenience stores which are more expensive and do not have the range of foods, especially fresh foods, available at supermarkets. Household goods: Many items are now considered essential which were not in the past, such as TVs and fridge-freezers, but these are difficult for people to buy without credit or debit cards; they therefore buy on hire-purchase at high cost stores such as Bright House where they are encouraged to take out additional warranties and insurance, pushing the APR up to 86.2%. If they miss a payment they are charged £1.50, and if they miss 4 or 5 payments the store will take goods back, even children's beds, even though this is against Hire Purchase law. In addition, many goods are second hand, but people don't understand what "reconditioned" means. An example was given of bunk beds which cost £199 in Argos costing £400 without mattresses at Bright House. The estimated additional costs for household goods is £346 per annum. A scheme had been set up in Doncaster with social enterprise to recycle goods, and provide loans for new items from credit unions.

Financial Services:

-Insurance: Many people on the lowest income are in private rented accommodation which is excluded from home contents insurance. They also live in areas which attract high premiums for home and car insurance. Because they live in high risk areas, they are 50% more likely to be burgled, and then turn to high cost lenders to replace stolen items. Another difficulty is that they cannot make regular payments through direct debits or standing orders because benefits are paid irregularly.

-Banking: Banks do not want people on benefits even for basic accounts because of the way that benefits are paid. Some banks do not offer a counter service; banking can be done via the Post Office, and there are telephone helplines, but these are people who often need more help and someone to talk to directly.

-Credit: The average Credit Union loan is £380. High street banks won't lend small amounts. Many people go to doorstep lenders; the largest of these is Provident, who are not shy about charging 254% - this has risen despite interest rates generally falling; For example, a woman who took out a loan of £500 ended up paying back £1,023—with the Credit Union the repayment would have been £575.

-Cashing cheques: £16.50 on a £200 cheque at a cheque cashing shop.

-Log book loans: this is where the final repayment on a loan is a larger amount which the borrower is unable to pay, so the lender advances a further amount which is then added to the loan, and makes the borrower sign an agreement.

-Pawn shops, or their modern version Cash Converters, are booming at the moment. The Credit Union is often called on to rescue family heirlooms.

-Loan sharks are more and more prevalent. The Government has set up "Illegal Lending Teams", but people are often afraid to report loan sharks to them because of the threats that have been made against them.

Ian referred to the cycle of deprivation experienced by the poorest sectors of society: they are more likely to live in private rented accommodation rather than social housing; these don't have central heating and are damp. If only one room is heated, children don't have a separate room to do homework; they often turn up at school without a decent breakfast and become disruptive in class; in Barnsley it has been shown that often children are brighter when they start school than when they leave. Poor educational attainment then leads to poor job prospects.

Issues arising from discussion: The Credit Union works with PCT's to encourage people to give up smoking as this makes up a large portion of their expenditure. Ian's credit union had taken advantage of a growth fund set up by Gordon Brown as Chancellor to scrap the requirement of 13 weeks saving before being eligible for loans; this had encouraged more people to join, and once in they were encouraged to save and manage money better. There was a scheme working with local housing providers to have Housing Benefits paid via the Credit Union to help people avoid getting into arrears. He was keen to get Savings Clubs set up in schools, to teach children good habits, but also to bring parents in. There was also an initiative to help teachers deliver financial literacy. In response to a question of how to be informed before trying to set up credit unions or other financial inclusion schemes, he advised doing the relevant modules of the CAB training; local Welfare Rights Teams would also do training. On average the level of bad debts was around 5%; some had to be written off, but the credit union would always chase people for them; they were "a hand up, not a hand-out."