

# Understanding consumers on low incomes

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## Summary

1. Over the last few months, the Competition and Markets Authority (CMA) has been looking at the issues affecting consumers on low incomes, to better understand what the main areas of concern are and how the CMA might address these, within the context of the CMA's competition, markets and consumer law remit. We have been talking to experts on these matters, from charities and consumer advisers to sector regulators and ombudsmen. Broadly, we found that:
  - Consumers on low incomes exhibit common characteristics and behaviours, for example they tend to share an aversion to risk and a desire to maintain control over their finances in the short term. However these affect consumers on low incomes to varying degrees. Also, although consumers on low incomes share some common characteristics and behaviours, there are some important differences between the ways in which they behave and engage with markets.
  - There is a wide range of factors that affect how consumers on low incomes engage in markets and the outcomes they achieve. This is, for example, influenced by: where they live (be that in a large city or town, a rural area, or in England, Wales, Scotland or Northern Ireland); how old they are; how much spare time they have; how financially capable they are; and whether they have friends and family to offer advice.
  - Some supply-side factors prevent consumers on low incomes from engaging in markets effectively. Examples highlighted to us included markets where the information available is not easy to compare, where barriers to switching exist or where choice is restricted because of the consumer's circumstances (such as being in debt). These issues are not necessarily specific to consumers on low incomes, but they can have a greater impact on them given their limited financial resources.
2. This work has given the CMA a better understanding of the most important challenges facing consumers on low incomes and how we can ensure our work takes these insights into account, whether that be in prioritising projects, analysing markets or designing and implementing remedies. We have used these insights in recent CMA projects and continue to do so in our current work. For example:

- The CMA has tackled a number of issues affecting vulnerable consumers, including those on low incomes. This includes projects on payday lending,<sup>1</sup> children’s online games<sup>2</sup> and problem debt.<sup>3</sup>
  - Our energy<sup>4</sup> and retail banking<sup>5</sup> market investigations have both considered issues that are of relevance to consumers on low incomes. For example, our energy market investigation provisionally noted that the poorest 10% of the population spend almost 10% of total household expenditure on gas and electricity, prepayment meters are more expensive and consumers on low incomes are less likely to switch supplier.<sup>6</sup> Our retail banking market investigation is analysing whether factors such as a lack of time, financial literacy, confidence and ability to access accurate information may impact on consumers’ ability to search for and switch bank accounts.
  - The CMA is engaging closely with the UK Regulators Network on its project on affordability.<sup>7</sup> The first phase of this work, which concluded in January, looked at the drivers of affordability issues and the regulatory approaches taken to these issues in the water, energy and communications sectors. The second phase will consider how to address affordability issues across regulators.
3. We will continue to challenge ourselves to make sure that the perspectives of consumers on low incomes are reflected in all our work, now and in the future.
  4. We are grateful to all of the stakeholders who took the time to engage with us and share their views and expert knowledge to inform our work.

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<sup>1</sup> CMA, [Payday lending market investigation: final report](#), February 2015.

<sup>2</sup> CMA case, [Children’s online games](#), concluded June 2015.

<sup>3</sup> CMA, [Problem debt report \(CMA32\)](#), October 2014.

<sup>4</sup> CMA, [Energy market investigation](#), ongoing.

<sup>5</sup> CMA, [Retail banking market investigation](#), ongoing.

<sup>6</sup> CMA, [Energy market investigation provisional findings](#), July 2015. On prepayment, the CMA noted that it is generally not a choice on the part of the customer to be on prepayment – prepayment meters are generally installed where a customer has a poor payment history or in certain types of accommodation such as student accommodation. The CMA understands that premiums paid by dual fuel, standard variable tariff prepayment customers are about £75–£80 per year, compared with paying by direct debit. On switching, the CMA’s commissioned survey of over 7,000 domestic retail energy customers suggested that those who have low incomes are less likely to be engaged in the domestic retail energy markets against a variety of indicators of engagement. For example, 35% of those whose household incomes were above £36,000 had switched supplier in the last three years, compared with 20% of those whose household incomes were below £18,000. The CMA also found that, excluding prepayment customers, households with income of below £18,000 have higher gains from switching.

<sup>7</sup> See [Understanding affordability across sectors](#) for more information.

## Background

5. The CMA's mission is to make markets work well in the interests of consumers, businesses and the economy. The CMA has committed to put consumers at the heart of everything we do. We want to ensure markets function well for the benefit of all consumers. This includes more vulnerable groups, such as consumers on low incomes, who are not always well placed to take advantage of competitive markets. The CMA and its predecessor bodies, the Office of Fair Trading (OFT) and the Competition Commission, have a history of tackling issues affecting vulnerable consumers. This includes projects that have addressed problems in markets such as children's online games,<sup>8</sup> mobility aids,<sup>9</sup> payday loans,<sup>10</sup> and in remote communities.<sup>11</sup> The OFT also examined the problems facing consumers on low incomes in its 2010 report: *Markets and Households on Low Incomes*.<sup>12</sup>
6. In our problem debt report<sup>13</sup> we set out that the CMA would further consider practices or markets that may generate particular problems for consumers on low incomes. Low income is a dimension of vulnerability that needs careful consideration. This short report summarises what we have learned from talking to stakeholders and our own research, and how we intend to use that knowledge in our work in the future.
7. The CMA is responsible for addressing market-wide problems through the use of competition and consumer law enforcement and market studies and investigations. Broader issues of social justice and tax-and-spend policy form an important part of the context in which consumers on low incomes make decisions and behave in markets, but the CMA's remit does not extend to these areas.

## What we did

8. We spoke to a wide range of stakeholders who understand issues affecting consumers on low incomes and carried out desk research. Between November 2014 and February 2015 we held seven roundtable discussions with representatives from consumer organisations, advice providers, charities,

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<sup>8</sup> CMA case, [Children's online games](#), concluded June 2015.

<sup>9</sup> OFT, [Mobility aids market study](#), concluded September 2011.

<sup>10</sup> CMA, [Problem debt report \(CMA32\)](#), October 2014.

<sup>11</sup> OFT, [Price and choice in remote communities - findings](#), concluded June 2012.

<sup>12</sup> OFT/European Economics and New Policy Institute, [Markets and Households on Low Incomes](#), September 2010.

<sup>13</sup> CMA, [Problem debt report \(CMA32\)](#), October 2014.

regulators, local authorities, academic institutions, and organisations involved in helping consumers seek redress.

9. The first five roundtables explored a wide range of issues facing consumers on low incomes across a variety of markets, and took place in England, Wales, Scotland and Northern Ireland. We also subsequently held two roundtables focused on issues that had been identified to us as important areas of concern – the private rental market and access to redress. In March we published two blogs on these issues and invited comments from interested stakeholders. We received over 20 responses to these blogs from a mix of organisations and individuals.

## **What we have found**

10. The insights from our work are set out below. This has been a short review of the issues affecting consumers on low incomes, with the aim of improving the CMA's insights in this area. This short report is not intended to be a comprehensive analysis of all issues or to present detailed proposals for how to address particular problems.

### ***Defining 'consumers on low incomes'***

11. We have not adopted a rigid definition of consumers on low incomes. There are a variety of approaches that can be used, some of which are relative measures (such as the lowest decile or quintile) while others seek to create an absolute measure (like the minimum living wage).<sup>14</sup> For our purposes using a strict definition is not necessary as we are interested in exploring wider behaviours and circumstances. As such we have used a variety of definitions from different researchers but do not hold any one of these to be more or less appropriate or accurate than any other.

### ***Similarities and differences between consumers on low incomes***

12. A number of similarities can be identified between different groups of consumers on low incomes. These include:
  - Insights from behavioural economics indicate that experiencing 'scarcity', such as having limited financial resources, can change how individuals

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<sup>14</sup> For example these can include those on an income less than 60% of median equivalised net household income (before or after housing costs), people living in households where the household income is in the lowest 20% of all household incomes, or people in households who are unable to afford a minimum acceptable standard of living (according to social consensus).

think. For example, it can reduce an individual's ability to take into account the longer term consequences and costs of their decisions.<sup>15</sup>

- Research indicates that consumers on low incomes budget over a shorter timeframe than better off consumers. A survey for the Social Market Foundation found those earning less than £14,000 a year were significantly more likely to budget on a weekly basis for food and energy compared to those in higher income groups.<sup>16</sup>
- Consumers on low incomes can, understandably, be less willing to take risks because they have fewer or no savings to meet an unexpected cost or financial penalty. As a result, they often prioritise control, flexibility and predictability over the total longer term costs of a product or service.<sup>17</sup> This is illustrated by a greater reluctance to use direct debits as they reduce control over the timing of payments,<sup>18</sup> and a preference among consumers on low incomes for pay-as-you-go services rather than contracts.<sup>19</sup>
- Research indicates that some consumers on low incomes tend to have lower consumer literacy. For example, Which? research has found that having a low income is correlated with having a low consumer literacy score.<sup>20</sup> Lower consumer literacy among some consumers on low incomes can leave them particularly vulnerable in markets where they need to make complicated choices or where deals are difficult to compare.
- Stakeholders told us that consumers on low incomes tend to lack the well-informed social networks and contacts that higher income groups can go to for help and advice when they face problems in markets.
- Consumers on low incomes are less likely to use, or may not have access to, important enabling products, such as the internet, a car or a bank account, which can be essential for obtaining the best deals in many markets. For example, 74% of households in the lowest income quintile have a bank account, compared to 91% of all adults.<sup>21</sup> In 2013 only 58% of those in the lowest socio-economic profiles (DE) had broadband access at

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<sup>15</sup> Mullaninathan, S and Sharif, E (2013), *Scarcity: Why Having Too Little Means So Much*.

<sup>16</sup> Social Market Foundation/Ben Richards (2015), [Bargaining on a low income: a better deal for consumers](#).

<sup>17</sup> See for example Consumer Futures/Joseph Rowntree Foundation/Donald Hirsch (2013), [Addressing the poverty premium: Approaches to regulation](#).

<sup>18</sup> Lindsey Kearton/Consumer Focus Wales (2009), [The cost of cash](#).

<sup>19</sup> Ofcom (2014), [Results of research into consumer views on the importance of communication services and their affordability](#).

<sup>20</sup> Which? (2013), [Real consumers: consumer literacy](#). Which? identified three dimensions of consumer literacy: 1) skills, 2) knowledge of their rights as consumers and 3) their propensity to engage in markets for example to compare products.

<sup>21</sup> Toynebee Hall and Policis (for the Payments Council) (2014), [The electronic payment needs of people on low incomes](#).



home, compared to 77% of all households (91% of households in the highest socio-economic profile had home internet access).<sup>22</sup> In Northern Ireland and Scotland, stakeholders flagged a lack of internet access as a particular issue in some areas. The CMA's energy market investigation provisionally noted that for some UK consumers, lack of access to the internet (or a lack of confidence in using the internet) appears to be a barrier to engagement with the energy market.<sup>23</sup>

13. There are, however, some significant differences among consumers on low incomes, which can affect, for example, how they make choices, whether they are disadvantaged, or pay more for goods and services. It is important for the CMA to consider these differences and adjust for them accordingly in all of our work. It is also notable that various elements of vulnerability overlap with each other – a low income individual may also be disabled, isolated, have poor consumer literacy or other characteristics that increase their vulnerability.
14. Some of the main differences identified include:
  - Level of consumer/financial literacy:<sup>24</sup> While consumers on low incomes tend to have lower levels of consumer literacy than better off income groups, a significant minority have high levels of consumer literacy. For example, research by Which? has shown that of those earning less than £15,000 a year, just under 20% have high consumer literacy skills.<sup>25</sup>
  - Age: At different stages in their lives, consumers on low incomes can face different challenges. For example older consumers are less likely to have internet access, but also less likely to be time poor. Younger consumers on low incomes are likely to have less experience of buying certain goods and services and tend to have lower levels of consumer literacy.<sup>26</sup> Stakeholders highlighted how mistakes young consumers make due to

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<sup>22</sup> The social grade system is based on the occupation of the head of the household. The A classification refers to higher managerial, administrative and professional; B refers to intermediate managerial, administrative and professional; C1 refers to supervisory, clerical and junior managerial, administrative and professional; C2 refers to skilled manual workers; D refers to semiskilled and unskilled manual workers; and E refers to state pensioners, casual and lowest grade workers, unemployed people with state benefits only. The grades are often grouped into ABC1 and C2DE, taken to equate to middle class and working class respectively. Although income level has no part in the social classification system, National Readership Survey reports a strong correlation and other studies have taken this as a proxy. In this report we have similarly used this as a proxy. See the [National Readership Survey website](#) for more information.

<sup>23</sup> CMA, [Energy market investigation provisional findings](#), July 2015.

<sup>24</sup> Broadly speaking consumer literacy refers to a consumer's ability to shop around and choose products and services that are appropriate for their needs, an awareness of their rights as consumers and, when necessary, take action to ensure these are met.

<sup>25</sup> Which? (2013), [Real consumers: consumer literacy](#).

<sup>26</sup> Ibid.

poor financial literacy or the lack of an advice network can have significant implications in the future, for example on their credit ratings.

- How much time they have: Consumers on low incomes have different amounts of time available to research and buy goods and services. A Which? survey found that individuals earning less than £15,000 a year were more likely to say that they have a lot of time to make consumer decisions.<sup>27</sup> However, stakeholders at our roundtables emphasised that while some consumers on low incomes are time rich, others have little spare time, for example if they work long hours or multiple jobs. Consumers who are both time poor and cash poor are often not well served by markets. Products suitable for the cash rich and time poor will typically be unaffordable and products suitable for the time rich but cash poor will typically require more time and effort to identify or access.
- Where they live: Consumers with low incomes can face different challenges in different parts of the UK and there are often distinct concerns in England, Scotland, Wales and Northern Ireland. For example, in Northern Ireland high numbers of homeowners are in negative equity, which can have important knock-on effects, for example on their ability to get credit. Other issues can be rooted in geography. Areas of Scotland, for example, face challenges of remoteness and isolation, which can result in a more limited number of suppliers or weak competition. This can aggravate the problems that consumers on low incomes face. In other places issues arise because of how markets have developed over time. In Wales for instance, stakeholders pointed to a limited number of large retail sites in some areas and the consequences of this for prices and choice.
- The support available to them: Having a strong social network, whether it be family, friends or voluntary and community organisations, can be a significant advantage for all consumers, including those on low incomes. Some consumers with low incomes have access to a much larger social network than others. More isolated consumers need to be savvy enough to find out all the relevant information independently and if they are not they are more likely to get worse deals.<sup>28</sup>

15. These factors can impact on how consumers on low incomes engage in markets. First, they can pay a higher unit cost than more affluent consumers for the same products or services. Second, they can be less likely to obtain

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<sup>27</sup> Ibid.

<sup>28</sup> Toynbee Hall (2014), [The Poverty Premium in Tower Hamlets: A report by Toynbee Hall](#).

adequate redress when things go wrong. We discuss both of these outcomes in more depth below.

***Consumers on low incomes often have fewer and more expensive options available when buying goods and services***

16. Consumers on low incomes inevitably have fewer choices in many markets compared to better off consumers who have more money to spend and can access a wider range of products or services. However consumers on low incomes can also pay a premium because of their economic circumstances. They may, for example, rationally opt for more expensive payment methods because they prioritise control in order to manage their tight budgets. Alternatively consumers on low incomes may not be able to access some deals because they do not have internet access, a bank account or they are in debt. Energy prepayment meters are an example of problems in this context. Some households choose a prepayment meter because it helps them to manage their costs, while other consumers have these meters installed by their supplier as a means to recover outstanding energy debt.<sup>29</sup> The CMA's provisional findings in its energy market investigation highlighted that premiums paid by dual fuel standard variable tariff prepayment customers are about £75–£80 per year, compared with paying by direct debit.<sup>30</sup>
17. Some consumers with low incomes may rely on catalogues and hire purchase to buy goods, and they may not have access to low-cost credit. Rent to own agreements can be expensive. Interest rates of up to 94.7% APR, together with charges for service cover and insurance, which in some cases are compulsory, can more than double the cost of essential household goods.<sup>31</sup> A study by Toynbee Hall found some low income residents in Tower Hamlets used catalogues to purchase items such as children's clothes and furniture, even though they knew it could be more expensive to buy items this way, because they said they lacked an alternative.<sup>32</sup>
18. Consumers on low incomes may prioritise short-term costs over medium- to long-term costs and be less able to bulk buy to secure better deals because they lack the funds to do so. This means they can pay more than consumers with higher incomes for the same products and services. One area where this may be seen is access to multi-buy offers, for example in the grocery sector. A similar problem relates to difficulties in making large one-off payments. One

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<sup>29</sup> Citizens Advice (2015), [Consumer challenges 2015](#).

<sup>30</sup> CMA, [Energy market investigation provisional findings](#), July 2015.

<sup>31</sup> See for example All Party Parliamentary Group on Debt and Personal Finance [Report from the Enquiry into the Rent to Own Sector](#), February 2015.

<sup>32</sup> Toynbee Hall (2014), [The Poverty Premium in Tower Hamlets: A report by Toynbee Hall](#).

response to this is to buy smaller amounts more regularly, such as buying weekly rather than monthly or annual season tickets, which is typically more expensive on a per unit basis. In extreme cases, the response may be to not buy the product at all. As an example, this is sometimes the approach to insurance. This can result in further problems if low income households run into difficulties when uninsured items, for example a boiler, fail and the resulting repair or replacement bill is large.

19. Quantifying the additional costs that consumers on low incomes face because of the way they buy goods and services and the restricted choices they have is instructive. Save the Children estimated that at the end of 2013 the total additional cost low income households pay for essential goods and services such as household appliances, energy and insurance, compared to better off households, stood at £1,639 a year.<sup>33</sup>
20. Large upfront costs are required in some markets but this may be unaffordable for many low income households. For example, in the childcare market, Citizens Advice found that 90% of providers required payment in advance and 40% required a deposit of up to £150. Many providers also offer limited flexibility to change childcare arrangements with nearly two-thirds of providers requiring at least one month's notice to make changes. This can be particularly problematic for low income households who do not have a permanent job or have uncertain hours.<sup>34</sup>
21. In complex markets finding the lowest cost option may be easier with a price comparison website (PCW). However, research in the UK and across Europe indicates that consumers on low incomes tend to be less familiar with PCWs and are less likely to use them compared to better off consumers.<sup>35</sup> For example research for Consumer Futures found that between 71 and 75% of consumers in the higher socio-economic profiles (A–C) were aware of and had used a PCW over the previous two years, compared to 47% in the lowest socio-economic profile (E).<sup>36</sup> The CMA's energy market investigation provisionally found that consumers on low incomes (as well as those with low levels of education) are less likely to use PCWs.<sup>37</sup>

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<sup>33</sup> Save the Children (2014), [A Fair Start for Every Child: Why we must act now to tackle child poverty in the UK](#).

<sup>34</sup> Citizens Advice (2014), [The practicalities of childcare: an overlooked part of the puzzle?](#).

<sup>35</sup> ECME Consortium in partnership with DELOITTE, [Comparison Tools and Third-Party Verification Schemes](#).

<sup>36</sup> The proportion among the D grade is 65%. RS Consulting for Consumer Futures (2013), [Price comparison websites: consumer perceptions and experiences](#).

<sup>37</sup> CMA, [Energy market investigation provisional findings](#), July 2015. Of those who are not confident using a PCW, 43% said they did not trust or believe PCWs.

## ***Poor quality products and services and difficulty obtaining adequate redress***

22. Stakeholders expressed concerns that consumers on low incomes are susceptible to poor quality products and services. Additionally, when things do go wrong, they may struggle to get adequate redress, which can have a severe impact on them when their finances are already stretched.

### *Poor quality products and services*

23. One example highlighted was the poor quality housing that many low income households in the private rented sector live in, particularly in areas that have a lack of supply or a lack of affordable homes. Shelter found that over 60% of the private renters they surveyed had experienced at least one of the following problems in their home over the past 12 months: damp, mould, leaking roofs or windows, electrical hazards, animal infestations and gas leaks.<sup>38</sup> 30% of properties in the private rental sector did not meet the government's Decent Homes Standard in 2013.<sup>39</sup>
24. In the rent-to-own market, the All Party Parliamentary Group on Debt and Personal Finance suggested that in some cases renting an item or taking out a rent-to-own agreement over a shorter period of time may be more appropriate for a consumer's needs, rather than a longer rent-to-own agreement.<sup>40</sup> Stakeholders, for example in Northern Ireland and Wales, suggested that low income households and other vulnerable groups are targeted by unscrupulous lenders and catalogues that may provide poor value for money. In the energy market, consumers on low incomes who have prepayment meters can have few options for topping up their account, compared to prepay in other sectors such as mobile phones, limited choice over tariff, and problems with keys or meters, which can mean their gas or electricity is cut off.<sup>41</sup>

### *Complaints and redress*

25. There is limited data on consumers' propensity to make complaints and pursue redress in most sectors. However, there was broad consensus at the roundtables we held that consumers on low incomes are less likely to take action when something goes wrong with a product or service. Which? research also indicates that this is the case, finding that consumers with an

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<sup>38</sup> Shelter (2014), [Safe and Decent Homes: Solutions for better private rented sector](#). This is of all private renters surveyed, not just those with a low income.

<sup>39</sup> English Housing Survey (2015), [Headline Report 2013-14](#), pp54 Table 2.2.

<sup>40</sup> All Party Parliamentary Group on Debt and Personal Finance [Report from the Enquiry into the Rent to Own Sector](#), February 2015

<sup>41</sup> Citizens Advice (2015), [Consumer challenges 2015](#).

annual income below £15,000 were less likely to complain in response to the last problem they faced in any market, with 70% reporting that they had complained, compared to 78% across other income groups.<sup>42</sup>

26. Our conversations with stakeholders, as well as research in the energy market, suggests consumers on low incomes are more likely to drop out during a complaint process and less likely to escalate a problem. Analysis by GfK for Ofgem found those in the lowest socio-economic profile and those with an annual household income of under £20,000 (along with those retired on a state pension, renters and those with a disability) are marginally less likely to escalate their complaint to the ombudsman for energy than other consumers.<sup>43</sup> A separate GfK report found low income households (along with some other vulnerable groups) were less likely to feel that their complaint had been satisfactorily resolved. Although overall 54% of complainants felt their complaint had been dealt with satisfactorily, this fell to 44% for those with a household income of less than £10,000 per year.<sup>44</sup>
27. Experts at our roundtables and existing research indicated that a number of factors could explain these differences. Consumers on low incomes may question the value of complaining, for example because they do not consider their complaint will be resolved or they do not consider they have the time to pursue a complaint. Lower levels of consumer literacy and knowledge may mean they do not know their rights, which is particularly problematic where complaints processes are unclear, complex or difficult to navigate. An example raised by stakeholders related to how consumers are often unsure how to seek redress for faulty electronic goods. It was suggested that in some instances the retailer will direct the consumer to the manufacturer with the manufacturer in turn directing them back to the retailer. Without a clear understanding of the law and their consumer rights, it is difficult for consumers to break this cycle. Advice networks are important and stakeholders noted that consumers on low incomes can be less likely to have a large, well-informed advice network, compared to more affluent consumers. Some consumers on low incomes can also be intimidated by complaints processes, for example due to the formality and the language involved, or because they want to avoid conflict with their suppliers or landlord.
28. Lower levels of home internet access among consumers on low incomes may also affect their ability to complain. Some companies accept complaints only

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<sup>42</sup> Which? (2013), [Real consumers: consumer literacy](#).

<sup>43</sup> GfK (2013), [Complaints to Ombudsman Services: Report for Ofgem exploring why few consumers refer their complaint to Ombudsman Services: Energy](#).

<sup>44</sup> GfK (2013), [Complaints to Ombudsman Services: Report for Ofgem exploring why few consumers refer their complaint to Ombudsman Services: Energy](#).

via their website and important information and advice about how to complain can be found on the internet. Stakeholders also suggested that the cost of complaining may be a barrier for consumers with low incomes. Some companies use expensive 0845 or 0870 numbers for their consumer help lines. Most mobile networks do not allow their customers to call such numbers from their inclusive minutes, and Ofcom has found consumers on low incomes are less likely to commit to a landline contract, instead relying on mobile phones.<sup>45</sup>

## **How we are incorporating these findings into our work**

29. Our engagement with a wide range of stakeholders on this project has been valuable for the CMA and we have gained new insights into how consumers on low incomes engage in markets and the specific challenges they face. We recognise that it is important to avoid simple generalisations. This is a diverse group of consumers and the nature of problems they face, and the perception of those problems, varies from place to place.
30. The CMA is now building these insights into all of the work we do, and in particular into the key pillars of our work: prioritising projects; analysing and tackling problems in markets; and designing and implementing remedies.
31. When prioritising, the CMA focuses its efforts and resources on deterring and influencing behaviour that poses the greatest threat to consumer welfare. In order to make the best use of our resources in terms of real outcomes for UK consumers, we need to ensure that we make appropriate decisions about which projects and programmes of work we undertake across all areas of our responsibility.
32. Our prioritisation principles set out that we may prioritise projects where the direct effects would specifically benefit disadvantaged consumers, for example those on low incomes. One of the criteria the CMA considers when prioritising a project is potential impact. So we may, for instance, decide to prioritise particular projects because vulnerable consumers, including those on low incomes, are disproportionately affected by bad practices in a certain market or by certain market structures. A second criterion, is strategic significance, which might lead us to prioritise a project because it fits with the CMA's strategy, as set out in documents including our annual plan and strategic assessment. The CMA strategic assessment identifies a number of risks and challenges in markets, including practices that may generate

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<sup>45</sup> Ofcom (2014), [Communication Markets Report](#).

particular problems for consumers on low incomes.<sup>46</sup> We may also consider a market if it has impacts on other markets. By way of illustration, an example highlighted to us by stakeholders was the private rental market. It was suggested that a lack of security of tenure can impact on consumers' behaviour in other markets, such as energy and telecoms, and affect how they save and borrow. Prioritising our work in this manner will allow us to take different groups of vulnerable consumers into account in making balanced and proportionate prioritisation decisions, and ensure we continuously challenge ourselves to consider issues affecting vulnerable consumers, including those on low incomes, when we prioritise our work.

33. We will ensure that we take the perspectives of consumers on low incomes into account when we are analysing whether markets are working well, considering, for example, whether they are less likely to switch and whether there are barriers that mean they cannot access certain products and services. Our work in the energy and retail banking markets are examples of how these insights are important for our analysis of markets. We will also use the knowledge gathered as part of this project to inform future projects and continue to look for and address linkages between problems in different markets.
34. Regulated sectors, such as energy, banking, water and telecoms provide essential services to all consumers but typically represent a larger proportion of total spending for low income households. We will use the insights gathered about the experiences of consumers on low incomes to inform our work to promote competition in regulated sectors, for example when we engage with the UK Regulators Network (which covers many goods and services that make up a significant proportion of low income consumers' spending, including telecoms, water, energy, financial services and rail travel) on its affordability project.<sup>47</sup>
35. When designing remedies to market problems we will seek to ensure that we assess the impact of possible remedies on consumers with low incomes, as well as looking at the impact on wider groups of consumers. We will use what we have learned about the characteristics and behaviour of these consumers, recognising both the similarities and differences, to inform the design and implementation of remedies. By way of example, the CMA's payday lending market investigation took into account evidence about the incomes of those

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<sup>46</sup> [CMA Strategic Assessment](#), November 2014

<sup>47</sup> The first phase of this work, which concluded in January, looked at the drivers of affordability issues and the regulatory approaches taken to these issues in the water, energy and communications sectors. Phase Two will consider how to address affordability issues across regulators. See [Understanding affordability across sectors](#) for more information.



who took out payday loans and what they used loans for.<sup>48</sup> However, designing and implementing remedies is a difficult balancing act. This means that specific remedies targeted at addressing problems experienced by low income consumers may not always be effective and proportionate solutions, for example if this might lead to reduced supply and less choice overall.<sup>49</sup> We will use the insights from this work to inform our decisions on the most appropriate remedies to implement in response to specific market problems.

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<sup>48</sup> For example, the investigation found that 53% of consumers asked used payday loans to pay for living expenses such as groceries and utility bills, and 19% of consumers asked said the need for a payday loan was linked to an unexpected decrease in income. See the [payday lending market investigation final report](#) for more information.

<sup>49</sup> For example, the Competition Commission's home credit market investigation considered addressing consumer detriment caused by high prices through price caps. However, this option was rejected due to concerns that this could lead to a reduction in access to credit for some consumers and an increase in financial exclusion. See the Competition Commission's [home credit market investigation](#) for more information.