FLEXIBLE PAYMENTS: UNDERSTANDING PAYMENT NEEDS IN LOW-INCOME HOUSEHOLDS

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A research report from the
Personal Finance Research Centre (PFRC),
University of Bristol

FAIR BY DESIGN
Ending the extra costs of being poor

FLEXIBLE PAYMENTS: UNDERSTANDING PAYMENT NEEDS IN LOW-INCOME HOUSEHOLDS

ABOUT THIS REPORT

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Since the energy crisis, gas and electricity bills have taken on a very different role in people's lives. They represent one of the biggest outgoings for many, and nearly all consumers have experienced the cost of bills changing rapidly, due to changing tariff caps and the lack of fixed deals on offer since the start of the energy crisis in 2021. At the same time, regulatory change has removed some of the poverty premiums associated with energy costs. This has occurred against a background of changes to payment methods and technology, which has altered the way in which those on low incomes pay for gas and electricity over a relatively short period.

In the UK, there is pressure to ensure that the UK maintains its leading role in innovation in payments including through implementing Open Banking, and that these innovations are used to benefit customers. The Joint Regulatory Oversight Committee is currently focusing on the use of Variable Recurring Payments (VRPs) in the "low-risk" use cases (utilities, financial services and Government) as the next step in the roll out Open Banking. It is in this context that we conducted qualitive research to better understand the payment needs and choices of people on low incomes, and to explore the potential impact that VRPs could have.

We identified three main factors that underpinned many of the payment choices made by low-income households:

Control	Flexibility	Trust

- Feeling in **control** of money was more important than the particular method used to achieve it, and this could mean different things to different people.
- There were already a number of strategies used to create the **flexibility** needed such as:
  - Paying on receipt of bill
  - Moving the date of a Direct Debit
  - Changing the amount of a Direct Debit
  - Cancelling a Direct Debit.
- Some customers had lost **trust** in their suppliers due to changing and inflated monthly Direct Debits, and through the accrual of large credit balances that customers are unable to access.

While use of online payments was very common, there was little knowledge or awareness of Open Banking, and only a handful reported that they had used Open Banking (to their knowledge). However, after a description of Open Banking was provided, the security and ease of using Open Banking was approved of, tempered by concerns over the consequences of sharing financial data – particularly if in financial difficulties – and a belief that finances should be private.

In terms of the introduction of Variable Recurring Payments, there were both opportunities and barriers to take up among low-income households. VRPs have the potential to offer flexibility and control to at least some households, particularly for those whose incomes were unpredictable. However, VRPs are not necessarily the only way to offer low-income households more flexibility, and there were concerns that uncertainty over payment dates or amounts, allowing suppliers control over when payments were taken, or offering too much leniency could lead to financial difficulty for those who are already vulnerable to this.

CONTENTS

1 INTRODUCTION

In early 2024, Fair by Design commissioned research to explore whether low-income consumers are interested in having greater flexibility in the way they pay for essential services, particularly their gas and electricity bills.

In this section we review the existing landscape in the UK and describe the research.

Background

Open Banking and payment innovation

The last 10 years have seen significant innovation in banking and payments in the UK, driven by a combination of European legislation and action by the Competition and Markets Authority, which is the UK's main competition regulator.

The Second Payment Services Directive (PSD2) is an EU Directive that sets requirements for firms that provide payment services – such as banks and building societies, payment institutions, and e-money institutions. PSD2 promotes innovation in payment services, while also aiming to "*improve consumer protection, make payments safer and more secure, and drive down the costs of payment services*." It came into effect in the UK and Europe in January 2018.[1]

In particular, PSD2 requires all providers of online payment accounts (such as banks and building societies) to allow regulated payment service providers to have access to customers' online payment accounts (with the customer's consent). This means that payment service providers can develop new payments and information services for customers. For example, a customer might permit an app or website to have secure access to all their bank and building society accounts so they can manage their financial accounts and household bills online in one place; sign up to an app that uses their financial data (again, with consent) to make recommendations about ways to save; or to pay bills or buy goods and services direct from their bank account, as an alternative to credit and debit cards, Direct Debits and standing orders.

PSD2 provided the legislative framework for the development of Open Banking in the UK. Open Banking is the practice of providing open access to

[1] Financial Conduct Authority (2017) FCA finalises revised Payment Services Directive (PSD2) requirements.

financial data from financial institutions to third parties through a standard set of application programming interfaces (APIs – in basic terms, the technology that enables applications to communicate with each other). Around the same time as PSD2, the Competition and Markets Authority (CMA) mandated that nine of the UK's biggest banking providers must implement Open Banking for their retail and small business customers, to bring more competition and innovation to UK financial services.[2] The CMA announced in September 2024 that the implementation of Open Banking by these banking providers was complete.[3]

In July 2024, the incoming Labour administration announced a Digital Information and Smart Data Bill as part of their programme of legislative priorities in which Open Banking was noted to be the only active example of using smart data to improve customer engagement with the market. The Bill aims to encourage economic growth, and improve customer engagement in markets where this is currently lacking.

"These ATPs provide the customer with innovative services to improve decision making and engagement in a market."[4]

It is worth emphasising that Open Banking is a technology to enable the development of new products and services. This means that consumers may well use Open Banking-enabled apps and services without necessarily knowing what the term 'Open Banking' means.

Consumer take-up of Open Banking-enabled products and services

According to the Open Banking Directory[5], there were over 300 regulated providers of Open Banking-enabled services in the UK in July 2024, compared with 135 in 2019.[6] Data collected by Open Banking Limited shows that the three biggest uses of Open Banking are in (1) financial decision-making; (2) payments; and (3) lending.[7] By January 2024, 13% of digitally-active consumers were using Open Banking services to make payments or share their transaction data with third parties, for example when applying for credit.[8]

There has been particularly strong growth in Open Banking payments, sometimes referred to as 'Pay by link', 'Bank Pay', 'Pay with Bank Transfer', or 'Instant bank transfer'. In January 2024, 5.4 million consumers and small businesses made at least one Open Banking payment, an increase of 0.7

[2] Competition and Markets Authority (2017) Retail banking market investigation – Order 2017.
[3] Competition and Markets Authority (2024) CMA confirms full completion of Open Banking Roadmap, unlocking a new era of financial innovation.
[4] Global Government Fintech (2024) 'Smart data' legislation back in business as a new government gets cracking. (Accessed 13 August 2024)
[5] Open Banking Directory.
[6] Fingleton and the Open Data Institute (2019) Open Banking, preparing for lift off.
[7] Open Banking (2023) Open Banking Impact Report 2023.
[8] Open Banking (2024) Open Banking Impact Report 2024.

million over December 2023.[9] This growth is partly due to more people using Open Banking to pay taxes to HMRC, including self-assessment income tax.

The Financial Lives Survey 2022 found that more UK adults were using Open Banking services provided by their own bank, building society or credit union than those provided by a third party – with a specific focus on 'account dashboards' that let consumers see their accounts in one place and apps that help to save:[10]

- 5.5 million adults (11% of all adults with a day-to-day account) were using a service provided by their bank, building society or credit union to see in one place the accounts they hold with different banks.
- 1.5 million adults (3% of all adults with a day-to-day account) were using an app provided by a company that was not their bank, building society or credit union (such as Money Dashboard or MoneyHub) to see in one place the accounts they hold with different institutions.
- 1.3 million adults (3% of all adults with a day-to-day account) were using an app (such as Chip, Cleo, Moneybox or Plum) that builds savings by monitoring their current accounts and/or transactions and automatically transferring funds.

Open Banking and financial inclusion

Open Banking is seen as a way of increasing competition in UK banking that should also improve financial inclusion, by providing better access to financial services for people who have traditionally been poorly served. A 2019 report estimated that UK consumers could stand to gain £12 billion from Open Banking services over the course of a year – or £230 per consumer.[11]

There has not yet been any comprehensive evaluation of the impact of Open Banking on financial inclusion – or consumer outcomes more generally – in the UK. Analysis of the Financial Lives Survey by a team of Bank of England analysts and academics does however provide "*suggestive evidence*" that Open Banking improves consumer outcomes among those who use advice services (e.g. financial advice apps, apps that aggregate accounts, and savings apps), in the form of increased financial knowledge; and those who use credit services (e.g. apps that offer loans, credit ratings or price comparison), in the form of greater access to credit products.[12]

Other research published by Fair4All Finance found that people from minority ethnic groups had more trust and positive sentiment towards Fintech banks (i.e. banks that are fully online) and were more likely to bank with an online bank than white British people – a finding that was consistent regardless of

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[9] Ibid.
[10] Financial Conduct Authority (2023) Financial Lives 2022.
[11] Reynolds, F and Chidley, M (2019) Consumer priorities for Open Banking, Open Banking
[12] Bank of England (2024) Customer data access and fintech entry: early evidence from Open Banking.

age group. This was because they felt Fintechs better catered to their needs and offered more accessible information.[13]

Of course, a key limitation of Open Banking in terms of financial inclusion benefits is that "*Open Banking solutions can only support those that are banked and who also bank digitally*".[14] Banking apps have undoubtedly grown in popularity in recent years, with YouGov data showing that seven-in-ten adults (68%) in Britain in 2024 used a banking app on their phone either daily or at least once a week, up from 45% in 2019.[15] That still leaves two-in-ten (18%) of adults in 2024 – around 9.36 million people[16] – who hardly ever or never used a banking app on their phone; and the number of non-users is twice as high (42%) among adults aged 65+.

Other research exploring the use of Open Banking as part of tenant referencing also highlighted how, in some situations, tenants felt they did not have much control over what data they wanted to share – because the opportunity to secure a tenancy was essentially contingent on them sharing their financial data.[17] The same could apply in relation to accessing financial services, e.g. whereby loan applications will only be possible if borrowers agree to share their banking data with the lender.

Rather than generating consumer benefits, there are also concerns that Open Banking enabled services can cause consumer harm, for example in the case of 'rolling credit' products where one lender frequently took more money from the borrowers' account than the minimum set payment.[18]

Variable Recurring Payments (VRPs)

Variable Recurring Payments are a form of payment instruction that allows customers to safely connect authorised payment providers to their bank account via Open Banking.[19] The payment provider can then make recurring payments where the timing or the amount might vary, like a phone bill, on the customer's behalf. VRPs also mean the consumers can pay the actual amount they owe, for example for their electricity bill, rather than paying a set amount as is usual with Direct Debits[20] (which may be higher than the amount they owe). VRPs can also be cancelled or amended right up to the point they leave a customer's bank account and are settled almost instantly (compared to Direct Debits which can take up to three days). Prior to any payments being made, the customer agrees certain parameters such as the maximum amount, frequency and the length of the service. Consumers who use VRPs also need

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[13] Fair4All Finance (2023) Levelling the playing field – Building inclusive access to financial services for people from minority ethnic groups.
[14] Open Banking Strategic Working Group Secretariat (2023) The future development of Open Banking in the UK.
[15] YouGov (Undated) How often Brits use mobile banking (i.e. accessing account through an app).
[16] Based on ONS population estimates for 2022.
[17] Ciocănel, A et al (2024) Open Banking and data reassurance: the case of tenant referencing in the UK.
[18] Debt Camel (2023) SafetyNet Credit goes into administration.
[19] UK Finance (2024) Variable Recurring Payments – A key milestone achieved.
[20] Although variable direct debits such as those offered by Octopus also allow for this.

to consent to the recurring payments being made from their account by the third party's app; and they can cancel the service with the VRP provider.

Expanding the use of Variable Recurring Payments (VRPs) is a high priority for the Joint Regulatory Oversight Committee (JROC)[21,22], which was set up in April 2023 to oversee the next phase of Open Banking in the UK. In its view *"VRPs have the potential to deliver important benefits to payers and billers compared to existing payment methods such as Direct Debit and card on file, including greater flexibility in setting up and managing mandates and faster processing."*

The planned expansion of VRPs focuses on three 'low-risk' use cases:[23] payments to regulated financial services providers; regulated utilities providers (which are the main focus for this report); and local and central government, with a roll-out of these VRPs originally planned to be by the end of 2024. Consumer organisations have, however, contested the idea that these use cases are 'low risk' and called for stronger controls, high standards of consumer protection and actions from regulators to monitor and mitigate emerging risks for consumers.[24]

Notably, in 2024 the community development finance institution Moneyline (which provides small-value loans to people on low incomes) began a three-year trial of VRPs with its borrowers to offer more flexible loan payments where the customer can stay in control.[25] Moneyline made its first VRP loan in February 2024 and plans to publish the findings from the pilot.

The payment needs of low-income consumers

The very earliest research on financial exclusion in the UK – conducted a quarter of a century ago – highlighted the costs and challenges that low-income consumers faced when it came to paying for goods and services.[26] While payments have rapidly evolved since then, the needs of low-income consumers – for simple, accessible, flexible and affordable payments – still often remain unmet.

In 2024, some of the key payments issues faced by low-income consumers include:

- **Paying a poverty premium because of how they pay for energy**: Rather than pay a set amount each month by Direct Debit for their energy, low-income consumers may prefer to pay on receipt of their bill[27] (because this gives them more control) or else pay by

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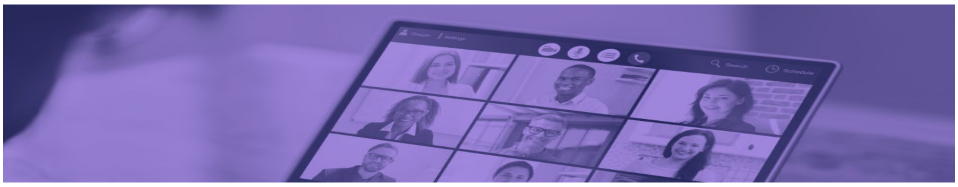
[21] JROC is co-chaired by the Financial Conduct Authority and the Payment System Regulator, and its other members are the Competition and Markets Authority and HM Treasury.
[22] Joint Regulatory Oversight Committee (2023) Response to the VRP Working Group's blueprint for non-sweeping VRPs.
[23] Payment Systems Regulator (2023) Expanding Variable Recurring Payments – Call for views.
[24] Financial Services Consumer Panel (2024) FSCP response to PSR call for views.
[25] Moneyline (2024) Moneyline social impact report 2023-2024.
[26] Kempson, E and Whyley, C (2004) Understanding and combating 'financial exclusion'.
[27] Customers are billed for the energy they have used, mostly quarterly, and then pay by card, cheque, online transfer or cash.

prepayment meter (in some cases because they have no choice). The former remains more expensive than paying by direct debt, although Ofgem have now ensured that those on PPM pay the same standing charge as standard credit which means paying by pre-payment meter is currently the cheapest way of paying for energy.[28]

- **Decline in use of cash**: Millions of people in the UK continue to use cash for everyday payments[29], including as a way to manage a tight budget on a low income, and it remains the second most frequently used payment method.[30] However, with significant numbers of bank and building society branch closures and fewer free cashpoints, people who operate in cash face less choice and potentially higher costs. Indeed, it is estimated that low-income consumers pay an extra £20 per year to access their own money from a pay-to-use cash machine. They may also increasingly find that some retailers and services don't accept cash payments at all.[31]
- **Inflexible Direct Debits**: Direct Debit is an automated payment method that is usually used to pay a fixed amount on a regular basis for things like household bills, services and large purchases (although some providers do offer variable direct debits which change in accordance with how much of a product/service you use). Direct Debits are used to make around 7 out of 10 of all regular bill payments in the UK.[32] While this ensures that bills and payments are made on time, consumers face high bank charges if they do not have enough money in their account to cover a Direct Debit or else may resort to borrowing money to ensure this doesn't happen.[33] And, while Direct Debit has historically been the cheapest way for consumers to pay for gas and electricity, high fixed Direct Debits and seasonal fluctuations in energy use mean that credit can accrue in customers' accounts that they find it difficult to access. Between January to December 2023, the average household energy account in credit held £252; and the total average amount of credit in energy accounts was £3.7 billion.[34]



[28] Following a government announcement in 2023 that it would end the premium paid by prepayment meter users, the energy regulator Ofgem began a process of 'levelisation' in 2024 to adjust costs between payment methods to make charges more equal or equitable but less cost-reflective.
[29] Financial Inclusion Commission (2024) Fixing financial exclusion across the four nations.
[30] UK Finance (2022) Half of all payments now made using debit cards.
[31] Personal Finance Research Centre (2023) The poverty premium in 2022 – Progress and problems: Quick read summary.
[32] UK Finance (2023) UK payment markets summary 2023.
[33] Pay.UK (2023) All aboard – improving the payments system for financially vulnerable people.
[34] Ofgem (2024) Domestic energy customer credit balances, January to December 2023.

Aims of the research

This research aims to explore whether low-income consumers are interested in having greater flexibility in the way they pay for essential services, particularly their gas and electricity bills. It explores choices and barriers when it comes to paying for goods and services, and what payment innovations in energy would help people on low incomes, including their attitudes to Open Banking and technology. We focus on three main research questions:

- What are the key factors underlying payment needs and choices in low-income households?
- How have Open Banking and other innovations in financial technology (Fintech) impacted low-income consumers?
- What impact, positive and negative, could Variable Recurring Payments have for low-income consumers?

Methodology

To ground the findings in the lived experiences of people living on low incomes, we conducted six online focus groups with people from low-income households – defined as below 70% median income equivalised for household size – in May 2024. In terms of financial situation, they were either keeping up with their energy bills, although it was a struggle to do so, or occasionally falling behind. All were bill payers and paid for gas or electricity via prepayment meter (PPM), or on receipt of bill, or via a Direct Debit (only with Octopus Energy, as a supplier that offers flexible direct debits, and variable direct debits[35]). We recruited men and women to represent a mix of ethnic backgrounds, family situations, and locations. There were 27 respondents across six groups, and they were stratified by age, with two younger groups (aged 18-30), two mid-aged groups (30-65), and two older groups (over 65s). The focus groups were fully transcribed and anonymised, prior to thematic analysis conducted using NVivo software.

About this report

- In **chapter 2** we look at which payment methods were currently being used by participants to pay for gas and electricity, including the use of Direct Debits, prepayment meters and paying on receipt of bill. We also look at drivers of choice, and what works well for customers.
- In **chapter 3** we explore the current use of online payments, and the benefits and negatives of Open Banking. We also look at perceptions and understanding of Variable Recurring Payments.
- In **chapter 4** we set out our conclusions and the policy implications from the research findings.

[35] Octopus Energy offer a variable Direct Debit, where you pay for exactly what you use every month, but also allow customers to amend the amount of the standard direct debit themselves (which we call 'flexible' here)

2 UNDERSTANDING PAYMENT CHOICES

We begin this section by looking at the background to the current energy market, before exploring current payment choices among our focus group participants, including the use of Direct Debits, prepayment meters, and paying on receipt of bill. We then go on to discuss the factors driving payment preferences, and some final reflections on what works for customers.

Background to the current energy market

Any consideration of how people pay for gas and electricity in 2024 needs to account for the context within which these payments are occurring. The cost-of-living crisis started to impact households in the autumn of 2021, as a result of a number of factors including the Covid-19 pandemic and Russia's invasion of Ukraine, which complicated energy supply chains and transit routes. Consequently, by October 2022, inflation in the UK reached a 40 year high of 11.1%, driven in large part by the extraordinary increases in domestic gas and energy prices. Domestic gas prices rose by 129% between October 2021 and October 2022, and electricity by 69% over the same period. The impact of increased energy and food prices on low-income households was both broad and deep, and many took radical steps to reduce energy use as a result.[36,37] While both inflation and domestic energy prices have since dropped, average energy costs remained 39% higher in June 2024 than they were in winter 2021[38].

This inflationary turmoil fundamentally changed the nature of the UK's energy supply market. Prior to this, the market had been characterised by competition, with the average cost of not being on the best tariff calculated at £317 in 2016.[39] While regulatory caps on tariffs[40] had begun to reduce this

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[36] Evans, J and Collard, S (2023) The 'New Normal'? The financial wellbeing of UK households in May 2023, University of Bristol and abrdn Financial Fairness Trust.

[37] Atkins, E, Robinson, C, Davies, S, Collard, S and Copeland, M (2023) Testimonies from the energy crisis: Low income households' experiences of paying for energy in a cost of living crisis, University of Bristol.

[38] House of Commons library (2024) Gas and electricity prices during the 'energy crisis' and beyond .

[39] Davies, S, Finney, A, and Hartfree, Y (2016) Paying to be poor: Uncovering the scale and nature of the poverty premium, University of Bristol.

[40] Prepayment meter (PPM) cap of 2017 and The Default Tariff cap of 2019

poverty premium – it had decreased to £213 in 2020[41] – by October 2022 there was no longer a competitive market for gas and electricity tariffs, and the majority of households were on a tariff based on an energy price cap. Furthermore, a number of suppliers went into administration, meaning many households found themselves moved to a supplier chosen for them. Currently, the energy price cap is re-evaluated every 3 months and while the energy market generally has stabilised and suppliers are beginning to offer fixed rate tariffs again, both the tariff landscape, and the cost of energy remain changed, and as one focus group participant noted:

"I think my perspective of energy bills has changed. Four or five years ago I barely thought about them, because it was a relatively small amount, but now it's probably my third biggest outgoing so it's a different kind of situation now."

Current payment choices

There are a number of ways in which consumers can pay for their energy. Most people (69%[42]) pay by Direct Debit, whereby an agreement permits a supplier to take a amount out of the customer's account each month (this amount is usually fixed, although some suppliers offer variable Direct Debits where the amount changes according to what you have used). This amount is set at a level to ensure that payments remain the same throughout the year even though typically more energy is used in winter compared to summer. More recently, some suppliers have offered the opportunity to change fixed direct debits easily, for example, the day the money goes out of the account, or the amount paid each month, although this process usually takes a number of days to be implemented. For the purposes of this report, we refer to this as a flexible direct debit.

Around 17% pay on receipt of the energy bill by card, cash or bank transfer, often called paying by standard credit, and around 14% pay for their energy by pre-payment meter. In this case money needs to be added to the meter before energy can be used.

Participants in our research paid for their energy by a mix of fixed, fixed/flexible or variable Direct Debits, paying on receipt of bill, and through prepayment meters (PPMs). While people were recruited to represent the variety of payment methods, we explored the reasons behind their choices. Overall, their choices were driven by a mix of pragmatism, inaction and lack of agency.

Some continued to use the payment methods that had been in place when they moved into their current home. This was not necessarily the same method that they had been using up until then, but largely this was not perceived as an issue. For some using PPMs in particular, however, it was not

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[41] Davies, S and Trend, L (2020) The Poverty Premium: a customer perspective, University of Bristol.
[42] 2023 figures Gov UK Quarterly domestic energy price statistics

possible to change, because people might need permission from their landlord to do this. Conversely, for the rare person who wanted to move *to* a PPM, this was equally difficult. One young man who currently paid on receipt of bill, having cancelled his direct debit, could see the benefits that PPMs could offer him, but he wasn't sure how to go about it.

"To be honest, it's so confusing and when you read the news, what they tell you is that the best deals are only with Direct Debit. The other deals that you get tend to be more expensive. But now you've mentioned it, I would be interested in pre-payment but they don't advertise these things." (*Younger father)*

Among some of the older participants, loyalty to a supplier – or at least lack of impetus to change from them – meant they were often using a payment method that they had been using for a long time, without considering whether this was the most appropriate method for them. Interestingly, those who had been moved to Octopus Energy when their supplier went out of business could use this change as a time to consider whether to switch payment method at the same time.

However, many we spoke with had experience of different modes of payment, through moving house, or because they had actively changed their payment mode. Notably, a surprising number had moved from Direct Debit to paying on receipt of bill, because they were unhappy with the level that the Direct Debit had been set at by their supplier. They articulated a sense of injustice that suppliers were keeping more of their money than was seen to be fair and had moved payment mode to address this. As noted earlier, between January to December 2023, the average household energy account in credit held £252.[43]

"At the moment, we're doing the same thing – giving our meter reading in and then paying the bill. Mainly because, we were with [provider] and we were paying Direct Debit and it was mounting up and mounting up and we actually worked out that they were sitting on about £600." *(Retired carer)*

In general, while there were features about each method that some might change, advances in technology with smart meters, the ability to top up meters online, and the flexibility to change Direct Debits with Octopus Energy, there was a feeling among participants that the differences between methods had been reduced, and so there was less motivation or need to switch payment methods. As will be discussed below, it was 'push' factors that were behind switching methods amongst those we spoke to.

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[43] Ofgem (2024) Domestic energy customer credit balances, January to December 2023.

Use of Direct Debits

For those who used and valued paying by Direct Debit for wider bills (traditional fixed direct debits), it was mostly the predictability of *when* the payment was taken, and the constancy of amount that were the perceived key benefits.

"You know that that certain amount of money what you need to have on your account on that day and it's kind of easier to budget your finance." ***(Mid aged Mother)***

To benefit from this, it was also important to have the ability to choose the day of the month when the payment would be taken, to fit in with the timing of salary or other income payments. Where this wasn't allowed, it could cause financial distress to the payee.

"I do find that there is the odd one or two where they won't give you any leeway. So, I get paid on certain days during the month and they don't change, other than it being a weekend. But you do speak to certain companies and it's like, 'No, you can't have that date. You can have this date, this date, this date and that's it. And they literally won't allow you any leniency on it but then want to charge you an extra £5 as a sort of a missed payment sort of thing. It's like I'm not deliberately missing my payment – you won't allow me to set it up for a day that is convenient where the money's there." ***(Single mother)***

The inflexibility of payment dates for Council Tax Direct Debits was frequently mentioned. One mother made manual payments to the council for her Council Tax for this reason, and another was struggling as the Direct Debit for her Council Tax came out of her bank account two days before she was paid. She had contacted the council but was told that there was nothing they could do to help her.

"There's no leeway with the council to say, 'well she receives her income this set day on this set month – every single month – sort of change it to that?'" (***Mother of older children)***

All participants had at least one payment that they made by Direct Debit, and most had more than one; bills such as streaming services (e.g. Netflix), broadband, and other utilities such as water. Fundamentally, the majority were happy to pay by Direct Debit if a) the amount was relatively small, and b) the amount stayed the same each month, which was the case for many non-energy bills. However, the upheaval of the domestic gas and energy market meant that energy payments were now among the largest bills – and one that was prone to change at relatively short notice – and this was putting some off using Direct Debits for energy bills.

"I think if I had to pay by Direct Debit on gas and electric it would freak me out because they change the amount they're taking out, and you can't stop that. So, if it's not in there then it would just freak me out." ***(Man with variable income)***

The original point of having a fixed DD over the whole year is: "to spread winter costs over a full year, avoiding seasonality in the cost of energy.[44]" However, the fact that energy suppliers can (a) accrue large credit balances and (b) increase the DD at short notice seems to undermine this intended benefit.

The unpredictability of the amount of the Direct Debits was a common issue raised across the board. This likely reflects the quarterly change in the energy price cap, but nonetheless was causing considerable distress for many households where there is little slack in the budget.

"They [the energy supplier] literally were sending me a notification [of increase] like three days before my Direct Debit and I mean who can get £100 from nowhere within a couple of days? Especially, I think at that time they were taking the payments at end of the month, about five to six days before the pay day." ***(Woman working part time)***

The focus group data highlights the worry experienced by people on low incomes that they won't have enough money to cover Direct Debits, which has also been reported in other studies[45] This worry is compounded if the Direct Debit amount might be increased by suppliers at short notice. Overall, the (perceived or actual) benefits of using a Direct Debit to pay for gas and electricity had decreased over time, compared with other methods, and certainly in comparison with using them for other bills.

Use of Prepayment Meters

Prepayment meters (PPMs) are used by around 15% of households, and remain a more common payment method among those on low incomes, in rental properties, or those experiencing fuel poverty.[46] The main reasons our focus group respondents preferred PPMs over Direct Debits are similar to those documented elsewhere[47,48]; namely the capacity to limit energy usage, and to pay when they had the money to do so. While PPM users in the focus groups were positive about how PPMs allowed them to limit the amount of gas or electricity used, the flipside of this was noted – that it was possible to run

[44] Ofgem (2024) Further details about published customer credit balance data.
[45] Davies, S and Trend, L (2020) The poverty premium: A customer perspective, University of Bristol.
[46] Citizens Advice Improving support for prepayment consumers who've self disconnected.
[47] Ofgem and Savanta (2023) Prepayment meter customer journey – qualitative research.
[48] Davies, S and Trend, L (2020) The poverty premium: A customer perspective, University of Bristol.

out of credit and be left without any energy. For some, this wasn't an issue; one young mother noted that even if she ran out of emergency credit, her supplier was generally amenable to topping up her meter and arranging a repayment plan of 50p per week. For others, this was a reason to avoid PPMs, even if it meant falling into arrears, as one focus group participant noted:

"if I didn't have the money, I wouldn't be able to literally have gas or electric so I wouldn't be able to cook or put the lights on. Whereas if you're going to have it anyway, it's better to be in debt, rather than having to live without heat and lights [laugh]." ***(Younger woman living alone)***

A further reason for preferring PPMs over traditional/fixed Direct Debits, however, was to ensure that they were only paying for energy that they had used. As noted above, there was an increasing resentment about the amounts of credit held by energy suppliers, when households often urgently needed that money.

"I think sticking with the prepayment meter would probably be my ideal. Because I have tried the Direct Debit thing, and it just wasn't for me. Because like everyone said, they fluctuate so much with how much they wanna charge you [laughs] and I'm just like, no, I want to pay for what I've used, when I've used it, rather than be billed for something and then use half of what they've billed before." ***(Mother of four)***

Topping up a PPM wasn't seen as a particular burden, whether online or using a payment card in a shop. People who topped up online and via an app were clearly not perceiving it as inconvenient, although one woman noted **"you've still got to remember to do it!"** But even those who topped up at a shop didn't find it particularly difficult.

"Because I'm at the supermarket buying a weekly shop anyway, it's quite easy. It's not like I'm going out of my way – it's something that I'm doing anyway." ***(Younger woman)***

One respondent, however, felt that fewer shops in her local area now offered the facility to top-up PPM cards or keys, which was a worry in terms of having to travel further by public transport.

Among the people we spoke with, there were few who were actively trying to move away from PPMs, or who had been forcibly moved over to this method, so while others may experience greater issues with PPMs, broadly speaking, many were happy with this method.

Paying on receipt of bill

Focus group respondents who paid for their energy on receipt of bill were the most likely to have deliberately chosen this method. Relatively few had 'just ended up' paying in this manner, and as noted above, a fair few had switched from paying by Direct Debit to paying on receipt of bill. One or two were aware that they would be paying more for their energy as a result, but others were not. One clear benefit noted was having the time to find the money to pay the bill after receipt.

"I feel that you've got a little bit more time to pay it. So, when the bill comes in, you don't have to pay it on the day that it comes in, so you can wait until your next pay cheque to pay it."

The biggest issue, however, was from those who paid for their energy quarterly, but would prefer to pay monthly. Three months felt quite risky in terms of the balance that could build up over that time, whereas a monthly payment was seen as more manageable.

One respondent was using Octopus Energy's variable direct debit and so was paying for the amount used at the end of the month. This idea appealed to others: it was observed that in the age of customer-submitted meter readings, some questions emerged about why they couldn't pay a monthly bill based on their usage, and this might make using a direct debit more appealing.

What is driving payment preferences?

We identified three main factors that underpinned many of these choices described above:

Control	Flexibility	Trust

Control and **flexibility**, in particular, are fundamental to the choices made by those with constrained finances generally[49], and the importance of these factors was seen in the language used and behaviours around paying for gas and electricity in this study. These factors were not necessarily mutually exclusive, either, and in order to retain the level of control they wanted, customers required some flexibility from suppliers.

[49] Davies, S, Finney, A and Hartfree, Y (2016) Paying to be poor, University of Bristol.

Control

As we have already described, the need to control the amount of energy used, and when and how much was coming out of an account, was paramount to most of our focus group respondents.

Many felt a lack of control when the energy suppliers increased their Direct Debits for reasons that they often weren't clear about – an occurrence that rarely happened for other bills - and this is why some had chosen to switch to paying on receipt of bill instead; to reclaim control over their money. This was similarly true of how people felt when they ended up with a large positive balance on their energy account; this was not a choice for most, and quite a few were open about the difficulty they had in getting that money back into their bank accounts.

Others, however, did choose to build up a balance as a buffer over the winter, highlighting that **it is the control over money that is the main thing, rather than the particular method that mattered**.

"We've deliberately overpaid to give us the flexibility throughout the winter. Because last summer we were £600 in credit, which came from a tax rebate, and we did that deliberately to give us a little bit of leeway over the winter because we knew our bills would be high." ***(Retiree)***

Smart meters also offered a means of feeling in control, notably for those who were paying by PPM. They allowed people to monitor what was being used, and broadly speaking, how much it was costing them.

"I've got smart meters but since living in this property… I basically pay… I top it up as I use it. It gives me notifications when it needs topping up. It gives me an emergency balance if needed, you can go into that. And, for me, being a single parent, it has helped me a lot because I wouldn't be able to pay a lump sum bill every three months. So, it's easier for me to monitor what I'm spending and be able to use and pay for what I use at the time." ***(Single mother)***

Flexibility

Paying on receipt of bill was liked as a method because it gave people both control and flexibility – those who paid in this way had a chance to ensure they had the money in place by the time they needed to pay. However, flexibility was most valued perhaps when people were struggling to pay their bills. Overall, it was encouraging to hear that energy suppliers had generally responded in a receptive and flexible way to focus group participants who were finding it hard to manage financially. Regardless of payment methods, people who had fallen into arrears and who had contacted their supplier, were generally given considerable leeway in repaying; most had arranged for a small extra payment to go out with their Direct Debit, or to be taken from the meter when they topped up.

Other people talked about a range of strategies they used to create the flexibility they needed:

- **Moving Direct Debit dates:** this was largely done at the point of setting up the Direct Debit (i.e. to fix a date that worked best for the customer), although some had moved dates around to manage changes in financial situation, or even to reduce the amount of credit they had built up. The notice needed to do this, however, could be an issue, as one focus group participant noted:

  "You don't then immediately change your Direct Debit, you can't change the day without giving them at least 10 days' notice as well. It's a big of a juggling thing but I managed to get around it in the end." ***(Retiree)***

- **Changing the amount of the Direct Debit:** This was common among people who were with Octopus Energy, in particular, as a way of managing both built up credit and financial difficulties.

  "We just changed it for one month – I think we halved it or something and we'll try and catch up with it this summer." ***(Man with variable income)***

  However, it was noted that, in some cases, the supplier, Octopus in this case, kept control over how much you were allowed to reduce the Direct Debit by, and that it still wasn't necessarily immediate; it could take a few days.

- **Cancelling Direct Debits**: a few people we spoke to had simply cancelled their Direct Debits when they knew they wouldn't have the money to cover them. Most had moved to making payments directly to the energy supplier (e.g. by card over the phone), until they were back on their feet financially, but some used this as a very short-term measure.

  "I didn't [do] this last month, because I was short of cash, so I cancelled it temporarily and made a manual payment and then reinstated it next month." ***(Single retiree)***

  Others were aware of a potential downside of managing money in this way, however.

  "You can always cancel your Direct Debit and then that's nothing to do with the gas and electric company – that's just between you and your bank. But it could cause you problems because it goes onto credit ratings and all that stuff so although anyone can do it,

it's probably not advisable to do it because the banks don't like you doing it for a start." ***(Widower)***

Many of our participants were keeping a very close eye on their bills to make these changes where needed. Online payment methods were also used for other bills, to make one off payments, and there were other examples of creditors showing forbearance where focus group respondents had struggled to make payments.

"They are really good [BNPL provider]. You can send them a message on there, online, and just explain the situation. They get back to you quite quick and they are quite lenient, they will put a hold on your account, so you don't lose your limit, you don't incur any fees and stuff like that." ***(Single mother)***

Interestingly, one woman observed that currently, the one type of flexibility that doesn't appear to be on offer through any company is automatic weekly payments, which may be useful to some.

"There's not many places that do offer something weekly – it's always a monthly Direct Debit, fortnightly… You don't come across many that will offer you a weekly payment scheme or anything like that, unless I think – I don't know whether it was my TV licence – they did give me the option of having a payment card." ***(Single mother)***

However, the danger of too much flexibility was also noted, as it relied on the discipline of the payee to keep up with their commitments, and this was not always easy.

"It's very useful that I don't have to pay a certain amount [flexible direct debit for energy]. But, because I don't, that's probably why I'm in arrears right now, I guess, because I've chosen not to pay it. So, I get what everyone's saying. It depends on how good I think the individual is actually [at budgeting]." ***(Younger father)***

Trust

Issues of trust have previously been identified as a barrier to switching to another supplier – in particular, concerns over whether the tariff was the best value one, or whether challenger providers may go under (a fear that appears to have been justified during the earlier stage of the energy crisis)[50]. In the current climate, however, it was the perception that suppliers were trying to

[50] Davies, S and Trend, L (2020) The poverty premium: A customer perspective, University of Bristol.

keep more money than they were owed that was engendering a sense of mistrust, along with frequent changes to the amounts expected each month.

"I had an email from them saying they wanted to increase my monthly payments and I was in credit with them and I've been paying … I live on my own – I'm really frugal – but I've been paying £79 a month, which… I was in credit enough, so I was using more than what I was paying but not a great deal more. And they wanted to increase my monthly payments from £79 to £128 a month, which is more than what my winter bills have been." ***(Widower)***

"I pay a greater Direct Debit than I need to, and the energy companies seem to want to keep a lot more of our money. So, goodness knows how much they've got in their coffers because they like us to be in credit now, much more-so than we used to be." ***(Semi-retired man)***

This lack of trust can impact on how any payment method offered will be received. As already noted, some of our focus group participants were avoiding Direct Debit payments because of this lack of trust. Similarly, any emergent concerns over security resulted in a big loss of trust. One man was contacted by his water company to let him know that the company's IT system had been hacked, and that his account was one of those identified as at risk. He immediately switched from paying by Direct Debit:

"If you can't look after my bank account details, you're not having them." ***(Widower)***

In contrast, the flexibility and support that many companies offered in assisting people with payments seemed to foster a greater sense of trust than among energy suppliers, in general, suppliers of Buy Now Pay Later credit were mentioned as companies that made it easier to meet payments through text messaging, and repeated attempts to ensure that the customers don't end up paying more than they need to.

"They do give you warnings, you know, 'You've got a payment due, make sure the funds are in your account'. But sometimes, for instance, they apply for the payment before your money actually goes in. It'll send you a message then and say, 'We couldn't collect the payment, make sure you log on and pay it before 8pm to avoid any payment fees'. So, you can go onto the app and pay it with a credit/debit card that's set up and then it just goes back to normal after that. ***(Single mother)***

Due to our recruitment criteria, participants were more likely to be with Octopus Energy than among the population as a whole. Nonetheless, the flexibility that Octopus Energy offered – such as allowing people to change payment amounts, or run into arrears, or making it easy to make one-off payments – did seem to help in building a positive relationship with customers. It was not entirely clear the extent to which people incurred fees, or were in discussion with Octopus Energy, however the impression was one of flexibility. This was the case even among those who had ended up with Octopus Energy by default through the failure of their previous suppliers.

Reflections on what works for customers

Overall, most people we spoke with had managed to find a payment method that worked for them, or to have adapted the method they use to make it more suitable. Smart meters have made it much easier for those who use PPMs to top up, while retaining the control over usage. Making payments online was equally simple, and commonly done. Even changing Direct Debits didn't appear to pose much difficulty, allowing for the delay for changes to take effect. Nonetheless, there was still some room for companies to provide greater flexibility, for example to allow customers to pay more frequently and in amounts that they decided.

3 ONLINE PAYMENTS, OPEN BANKING AND VARIABLE RECURRING PAYMENTS

In this section we explore current use of online payments and Open Banking in making payments, and perceptions of Variable Recurring Payments (VRPs).

Current use of online payments

We identified few barriers to people using online payments, and confidence in using online banking was generally very high across all age groups. The use of Fintech and online payments was driven by the same reasons underpinning the choice of energy payment method – to gain control over money, and notably to pay flexibly when needed. Those we spoke to had found apps and services that would help them do this in the way they wanted. There was frequent use of online services to make one-off payments, when money was available, particularly to pay down Buy Now Pay Later (BNPL) debt. Another used a digital challenger bank card as part of her money management strategy, because she felt this could offer greater security than using a card linked to her main bank account

"I put the money that I'm gonna spend into one account and then a lot of the time I'll just block the card when I'm not using it, just in case I lose it. Because on the [online challenger bank] app, it's literally so easy. I wouldn't do that with my main account, which is [high street bank] because it feels a bit more like final. Whereas with [online challenger bank], you can literally just block it and then unblock it as many times as you want." ***(Mother of four)***

Fundamentally, people would adopt technology as they came across it, and could see the benefit it offered. Few would use technology that they didn't feel was making things easier for them. One person noted that use of money management apps was not helpful to those who didn't have enough money to manage.

“I think I would be interested in using one of those sort of apps but, at the moment, it feels like there’s not much point. Maybe when I get into a bit of a better [laughs] financial situation there’d be more point.” ***(Single younger woman)***

As we discuss in more detail with reference to Variable Recurring Payments (VRPs), some of the older participants in particular felt they had the capacity to put money aside without needing technology to help them, therefore saw little benefit to some of the current or potential tech on offer.

Open Banking

When asked directly, there was little knowledge or awareness of Open Banking, and only a handful across the groups reported that they had used Open Banking, to their knowledge. Among those who had, the most common use was as part of an application for credit, or as part of a credit check when moving home.

We provided a description of Open Banking (see slide below), and once it was made clear that Open Banking was used to facilitate direct payments, more focus group participants realised that they had probably used this facility, for paying down BNPL credit, for example.

Slide 1: Description of Open Banking

Open Banking

Your bank account holds a lot of information about how much you earn, what you buy, your regular bills – even how much you spend at the supermarket every week. Before Open Banking, that information would simply be held by your bank or sit within unopened bank statements.

By allowing you to securely share that information with regulated companies, you can find apps, products, and services to help you take control of your finances.

In general, the reaction to Open Banking was somewhat ambivalent, not necessarily something people would use out of choice, but seen as necessary in some circumstances, and for some people.

“I probably wouldn’t use it, but I do see the logic of it moving forward.” ***(Older man)***

“I’ve heard of Open Banking, but I don’t really like it. I kind of let them do it to do what check they need to do and then I remove it.” ***(Mother of four)***

One or two younger people felt they would need to use Open Banking-enabled apps or services in the future to demonstrate their ability to repay consumer credit, as their credit record may not be good enough to access a loan or credit card, or indeed it could be a requirement for new tenancies.

The benefits of Open Banking

For those who had knowingly used it, the positives of Open Banking centred around security and ease of making payments. For one or two, it offered an advantage over paying via a banking app, as the details were automatically correct.

"They do give you the option to literally transfer it from your bank account to their bank account. But I feel like, for me, it feels safer doing it on the website. Just in case I mess up a number or something. If I do it on the website, you get a confirmation email and stuff like that." ***(Single younger woman)***

In a different group, one woman felt that as online banking saved details of previous payees, it would be no riskier or harder to send payments in that manner, after the first time.

Two further benefits mentioned were around using the data to make money management easier, rather than facilitating easy payments. First, as mentioned earlier, the capacity to help people manage their money, and track their spending habits, giving them the opportunity to gain more control over their money – **"It's a bit similar to my health app on my phone."**

Secondly, and with particular relevance to lending decisions, it can help ensure that people with constrained incomes don't find themselves in an unsustainable position when borrowing. This was an example of where getting support from technology in financial matters, and passing use of data over to a third party could result in the individual feeling more in control of their finances as a result:

"I think one of the things I did find with it was it doesn't allow you to basically fall into a situation where it's causing any detriment to yourself. So, say, going back to [consumer credit app], it won't give you a massive balance and say, 'Here's £1,000. Go and use it as you'd like'. Because they've got the Open Banking, and they can see what's coming in and what's going out. It can see how you manage your money that way, so they don't want to push you into any sort of detriment" ***(Mid aged mother)***

However, as noted, not everyone felt the need for technology support in this area, which could lead to reluctance to use Open Banking. The importance of retaining control over personal data was also very important, and the ability to withdraw consent for use of data easily was paramount in building trust in an application.

"I was like, yeah, okay, I'll let you do what check you need to do now but I don't want you to see in the future. So, I let them do it for that check and then I went back on my app and said I remove permissions and then it was really simple to just get rid of the permission." ***(Mother of four)***

The negatives of Open Banking
While there were a number of unsurprising concerns over the security of sharing bank data, particularly around cyber hacking, scams, or the safety of logging in via a less secure network in a public space, the primary worry was over revealing details of their financial position, and the impact this might have on how they are treated by organisations that were privy to this information. This concern may have been particularly prevalent among the people we spoke with, because they were living on low incomes and therefore many were struggling to keep up with bills or had fallen into arrears already.

"I would just be worried that it could be used against me, because I am in debt so if they can see that then I wouldn't be able to get anything. So, I'd prefer it if they didn't because - for obvious reasons - because then you might get penalised even further, and struggle even more." ***(Mother of four)***

It should be noted that many would have little choice in sharing their data if access to a product or section depends on it, (see introduction), and in the focus groups, those who had used it to access to credit, or to move tenancies may well not have chosen to do so under different circumstances.

"I'm not actually that keen on it. I feel you can be a bit judged on your spending in some ways, or you're being told how to spend your money."***(Mid aged father)***

Furthermore, some of the older participants, in particular, believed that money matters should be private, and kept between a person and their bank alone – **"It does feel a bit intrusive"**. However, this view was largely held by people who perhaps had less need for Open Banking applications, because they saw themselves as capable of managing their own money effectively without the need for tools.

Variable Recurring Payments

As Variable Recurring Payments (VRPs) are a relatively new idea and not commonly available, we presented a number of slides to help demonstrate the potential use of VRPs for paying for gas and electricity: the first provided an overview, while the second gave an example to illustrate how VRP can work. The participants were then given the opportunity to ask questions about this service and discuss how they felt it would work in their lives.

Slides 2 and 3: Variable recurring payments

Variable Recurring Payments

What is a VRP?

- A VRP will allow customers to safely connect authorised payment initiation service providers (PISPs) to their bank account. Providers can then make a series of payments on a customer's behalf within agreed parameters, offering more control and transparency than existing alternatives.
- By offering a payment solution that works for the customer, more will be inclined to make payments digitally and will then have more access to products and services.

Example of VRP use

Mike is a painter and decorator with a mix of weekly income and ad hoc payments when customers pay for a completed job. Mike's energy bill is £160 per month, but he hasn't set up a Direct Debit because sometimes there is not enough money in his account to pay. Mike's energy supplier offers him a Variable Recurring Payment agreement instead.

Mike agrees that weekly payments would suit him better, so the supplier agrees to pull £40 each week from Mike's account. If Mike doesn't have enough money in his account, then he can cancel the £40 up until seconds before it goes out. If, 2 days later, he does have the money in his account again to pay the £40, Mike can initiate the £40 payment direct to the energy supplier. Mike will not have to input the supplier's bank details to do this, minimising the risk of mistakes. By the end of the month the effect is the same – Mike has paid his £160 energy bill.

Initial reactions to the concept were mixed, and to an extent depended on how the person had interpreted the description given. Most understood the basic premise that you could spread your monthly payment out over the course of that month in a way that suited you.

"So say, for instance, the bill is £100 and it's supposed to be paid £25 a week but then you have the… the leniency and you can change it and if you're not going to have it, so you could potentially pay £15 here, £10 that you owe a couple of days later or what-not, would it then give you… Is it basically giving you the option of, 'Here's what you owe. We do want you to pay these set amounts per week but as long as that £100 is paid before the end of the month, we're not too fussed how you pay it', sort of thing?" ***(Mother of four)***

Whether this appealed to participants depended largely on their circumstances and what flexibility and control meant in their lives, in the ways we have detailed throughout this report. The benefit to those on irregular incomes was recognised by most people, even if it wasn't relevant to them. The idea that control over the amount and date of the payment lay with the customer rather that the company was appealing to some – **"It's having that autonomy to be**

able to do that". Those whose energy was supplied by Octopus Energy, and paid by Direct Debit, understood the similarities, and were therefore positive:

"Quite similar to how I pay my electricity…which is really useful in terms of how flexible it is – to have that level of control is unusual so, yeah, it sounds good." ***(Man with variable income)***

Other benefits to this method were also recognised. Many of the people we spoke with had needed to contact organisations, energy suppliers and others, to change payment dates or amounts when they were struggling. VRP appeared to offer the opportunity to do this without having to spend hours on the phone trying to get through to customer service to do so. It was also seen as positive that you didn't need to wait ten days for the change to the date or amount, as it is likely that the realisation that the money wouldn't be there on the due date would occur closer to the time; an unexpected or rare expense and VRP would provide the responsiveness to avoid running into problems.

Areas of uncertainty

One of the factors that most concerned the participants in the group discussion (and that was a potential barrier to using VRP), was the use of Open Banking within this form of payment method. Many feared that this gave the supplier the control to take money from their account. Not all of the detail about how VRPs will work is clear yet, and this was made clear to people in the focus groups. Nonetheless, the idea of payments being taken without being explicitly authorised each time was raised by many as unacceptable, even to some who had Direct Debits and who might therefore be more likely to find this acceptable. This was even the case if the customer hadn't paid the full amount by the end of the month. The connection with Open Banking also raised concerns that the supplier may be able to access details of the customers transactions, which again was generally unpopular.

"I like the idea that actually you could split your payment over the month however you see fit but the concern I have is that they have access to all your banking data and like, for example, say if you have a big windfall – it's unlikely – but then they might take all of that away as soon as you get that. So it's just like … Yeah, I don't know? It's a lot of control you're giving away to them." ***(Younger father)***

VRP and financial difficulty

Related to concerns over the use of Open Banking, there were questions around how VRP would work for those in financial difficulty. Given that participants were recruited on the basis that they were living on a low income, it is unsurprising that a fair number were either in arrears with energy costs at the time or had been previously. Some people had cancelled their energy Direct Debit, either temporarily or on an ongoing basis, and this experience raised concerns over the impact of financial difficulty on a VRP. Others were worried about how arrears would be dealt with, because they had come to an arrangement with their supplier that they found manageable, and couldn't envisage how a similar arrangement might work with a VRP. However, most also thought it would be fair for the supplier to want to take the money that was owed to them, which was somewhat paradoxical.

"But then there will be a point at which they say, 'Oh, no, we have to take it now'. That's the issue that I have, because you've given them that consent. Could you withdraw that consent? I think that would be interesting, if you could withdraw it?" ***(Younger father)***

Who is VRP most suited to?

As already noted, there are benefits of VRP for those with irregular incomes, or for people who receive their income on a more frequent basis than monthly.

"I've not claimed benefits for many years – I don't know whether people receive that on a weekly basis, but if you are having to budget weekly then VRP would probably fit well with that." ***(Semi-retired man)***

"I think obviously what you're trying to do is get something flexible for people who, like you say, have the money coming in but it's not there yet. And that, yeah, okay that's a good thing - but not for me." ***(Retired carer)***

While older participants could be positive about the idea, they were less likely to see it as suitable for themselves. The VRP was perceived to be a form of budgeting, and some of older participants credited themselves with enough self-control to put money aside themselves to ensure they can cover bills.

"Because in the good times – like some of the other contributors were saying – you put some money aside. My mother used to say put some money aside for a rainy day. So, you know, if you get a good month with eBay, you'd put some money in your account to cover the less good month. So that's me being in control, rather than passing that control to another company." ***(Semi-retired man)***

Another older person noted that there are already other ways of smoothing income, such as using a credit card or overdraft, perhaps reducing the need for flexibility via use of VRP, providing it is possible to do so without incurring fees or charges. The benefit of this was keeping control of money in the hands of the individual. This was not a universal view, however, and other older participants saw the value in a method that could assist them with money management. Others noted that flexibility may not be a good thing for those who were in a very constrained financial situation, as it could lead to arrears. This issue was raised in reference to Octopus Energy flexible payments as well, and is essentially the argument made by those on low incomes for using prepayment meters; if anything, this could be more dangerous than standard Direct Debits, as less flexibility may be better where strict discipline is necessary.

"I don't know? couples that don't have kids… if I had a single household and it was just me and my partner and we had no children – we would be fine. But obviously we've got four children and each one of them has their own expenditure and it's not like we can just say, 'Oh, no, they're not having it this month'. Whereas the gas and electric is something that, if they say, 'Oh, no, you don't need to pay that £40 per week – you can pay it back next week or the week after', and they're not gonna chase you for it – pay it back whenever you can – it's not going to be a priority for me." ***(Young mother)***

Others, however, saw it as a tool to support those who were finding it hard to manage financially. One younger man, who was currently struggling with his energy bills, wondered if it could help him avoid the negatives of falling into arrears.

"I think it sounds like a good idea to avoid people paying too much and like completely sort of panicking and cancelling their Direct Debit... I guess if it was amended to something affordable, it wouldn't … I don't know whether it would be less likely to affect your credit score, but you'd still be paying something" ***(Single younger woman)***

How to make VRP more understandable

The Variable Recurring Payment has launched into a space where there is a much greater variety of payment methods than there were even a decade ago. As such, it appeared hard for people to place where it fits within this landscape, and unsurprisingly, this ambiguity was off-putting to many. It wasn't really recognised as a form of Direct Debit, but something qualitatively different.

"I think it would definitely need a logo and some information about it, because if you were to put [VRP] in front of me with no context, I don't think I'd be able to figure out what [VRP] means." ***(Younger man)***

The name 'Variable Recurring Payments' was not seen as particularly useful in terms of getting across how it would work in practice, or its relation to standard Direct Debits. In some ways, it blurred the lines between various forms of payments, again making it hard to grasp its utility. It is possible that using the word 'Direct Debit' may actually encourage take up, as it is a concept all were familiar with. It was the 'not knowing' that seemed to be a barrier for some. Some referred to a Continuous Payment Authority during the groups, and these were not seen positively, suggesting that any connection with that form of payment needs to be avoided.

Alternative names suggested included:

"Weekly debits" "Flexible Direct Debits" "Flexible Recurring Payment" "Variable billing" "Flexi Payment Scheme"

All agreed that it should come with the same guarantees as a Direct Debit, and ideally similar branding of the guarantee. Interestingly, some people assumed that there would be a fee for this service, which further suggests that it wasn't being viewed as a form of Direct Debit. It should be made immediately clear to people that this isn't the case, as this may be off putting to people who may otherwise consider it.

"If there was a glitch, for example, on a computer and more money, or less money was taken out, that you'd have an Ombudsman or somebody to go to, to rectify that." ***(Retiree)***

There was an expectation, or at least a desire to have a record of any payment immediately. This had been mentioned as positive with Open Banking payments to BNPL providers, and so was a requirement before using it here.

One issue with using VRP was the lack of clarity around what the parameters agreed would look like, and how much more flexible they would be than a Direct Debit. Using the example from the slides above, the question was raised, for example, as to what would happen if Mike had only paid £140 in total by the end of the month, rather than £160? Would the remainder be taken out on a particular day? Would the customer be allowed to use the next month to make up the shortfall? These questions highlight the importance of giving clear instruction, particularly for people who need control over their money more than most. The discussion suggested that allowing the balance to be paid off over a longer period than one month would be particularly valued.

"I think 3 months is a good amount of time. Yeah, perfect. Three months." ***(Parent of five)***

Overall, however, the biggest barrier was the belief that a company could take money from your account without your express approval, again emphasising that this wasn't understood to be like a Direct Debit. The worry was compounded by not knowing when and how much may come out. The strength of feeling behind this reflected the need for control that is paramount for people on low incomes.

"It feels like you're giving away your control of paying them in a way." ***(Younger father)***

4 CONCLUSIONS AND POLICY IMPLICATIONS

Since the energy crisis, gas and electricity bills have taken on a very different role in people's lives. They represent one of the biggest outgoings for many people, and moreover, the cost of bills is subject to change at short notice. At the same time, regulatory change has removed some of the poverty premiums associated with energy costs. These changes have occurred against a background of changes to payment methods and technology, and as our report indicates, this has altered the way those on low incomes pay for gas and electricity over a relatively short period.

Paying by prepayment meter no longer means paying a higher tariff, and for those who top up online, it is not much more effort either. In turn, there is less incentive to pay by Direct Debit, as the re-evaluation of the standard tariff cap each quarter has removed the stability of payment levels over the year. There was a surprising willingness among those we spoke with to cancel Direct Debits when needed. This suggests that it is now easier for those on low incomes to use the payment method that suits their needs and pattern of income, so any new innovation may have a harder time demonstrating its benefit to potential users.

Nonetheless, in terms of the introduction of Variable Recurring Payments, there are both opportunities and barriers to take up among low-income households. **Flexibility and control were the two most important factors in payment needs among this group**, and while these could mean different things depending on the individual situation, VRP has the potential to offer flexibility and control to at least some households. As Octopus Energy's approach demonstrates, however, VRP is not necessarily the only way to offer low-income households more flexibility.

The trial of using VRP for credit repayments at an affordable lender shows very positive results:[51] Nearly all found payments either easier to make, or no different, and there was a 10% drop in arrears compared to those using standard Direct Debits. Gas and electricity payments, as noted above, are very different to debt repayments, in size and how they are accrued, and therefore thought needs to be given to ensure that, if or when VRPs are taken up by low-income households, it is only by those that will benefit from them.

[51] Moneyline (2024) Financial inclusion through innovation

Clarity on how and when suppliers are able to take payment is essential: while people expected a Direct Debit to give a company a mandate to take money, they were less clear about how this would work with VRPs. Those with constrained finances need to keep a very close eye on their outgoings, and so require full oversight of when and how much money is leaving their account.

Few were reluctant to use APIs for payment purposes, but there was a general unwillingness to allow energy suppliers access to bank transaction data. If this is a fundamental part of VRP, then a strong argument needs to be made for how this will benefit customers, and ideally it should not be forced on customers, as in the case of rental property applications. In particular, anything that introduces uncertainty around how much would be taken and when, or puts control of this in the hands of the suppliers, would be unlikely to improve outcomes for those who are vulnerable to financial difficulties.

Finally, for those on low incomes, the matter of arrears and financial difficulty remains a concern. Energy suppliers are under an obligation to support customers who can't afford their energy bills, and most organisations appeared to be offering relative leniency and support to those in arrears, regardless of payment type. This may make some reluctant to switch to a new method. Furthermore, there was perhaps some confusion between flexibility and leniency among those we spoke to, and companies offering VRP need to be clear whether the VRP offered more of both compared with use of a Direct Debit, or if not, which it was offering. For example, Moneyline doesn't treat someone as in arrears as long as they are still engaging on how to pay, which is likely to be different in the case of the ongoing supply of energy. Nonetheless, the potential for VRP to impact positively on some low-income households is evident.

Overall policy recommendations:

1) **All suppliers of essential goods and services such as energy suppliers but also local councils (for council tax bills) should offer as much flexibility over payment, and choice over payment methods, as possible**. Not all consumers on low incomes have the same needs, but offering the ability to pay in smaller amounts more often and/or to change payment dates, for example, can make a big difference. There should be **no poverty premiums** related to how consumers pay for essential goods and services. Consumers on low incomes should not have to pay more in order to pay in a way that suits them.
2) **Regulators such as Ofgem, should encourage suppliers to offer flexible payment methods and investigate and remove any regulatory barriers (if any) to this happening. In addition, Ofgem should require suppliers to make clear to customers, in accessible language, the full range of payment methods available to them as well as any additional costs those payment methods incur.** While Variable Recurring Payments offer a new opportunity to offer flexibility to consumers, the ability to offer flexibility already exists, as suppliers such as Octopus are demonstrating.

3) **The Payments Systems Regulator, working with other members of the Joint Regulatory Oversight Committee, needs to take proactive steps to ensure that the potential consumer benefits of flexibility and control from Variable Recurring Payments are realised.**

This means creating a set of **consistent rules** setting out how consumers using Variable Recurring Payments will be treated. Low-income consumers want to explicitly authorise every payment before it is taken and to be confident that money won't be taken out of their account without their agreement. Alongside a clear brand, a set of consistent rules and expectations based on accepted consumer principles[52] will help to build recognition, understanding, and trust, of this payment method.

The PSR should note that there is a **need for greater clarity over the boundary between flexibility and late payment.**

[52] Citizen's Advice Scotland (2018) Putting consumers first: principles into action

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