

Overcharging consumers in a cost-of-living crisis

The loyalty penalty:
4 years on

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citizens
advice

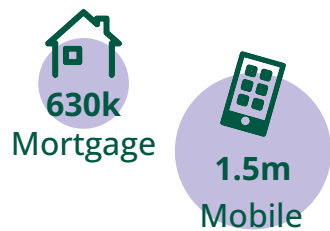


1 in 7 still pay the loyalty penalty

We first sounded the alarm on the loyalty penalty - the practice of overcharging customers who don't switch deals regularly - back in 2018. We submitted a super-complaint to the Competition and Markets Authority (CMA) after finding that consumers were being overcharged by £4bn per year for essential services.¹

Since then progress has been made in some markets, but **we've found that 1 in 7 people are still overpaying for their mortgage, broadband or mobile contract.**

No. of UK adults paying loyalty penalty, per market



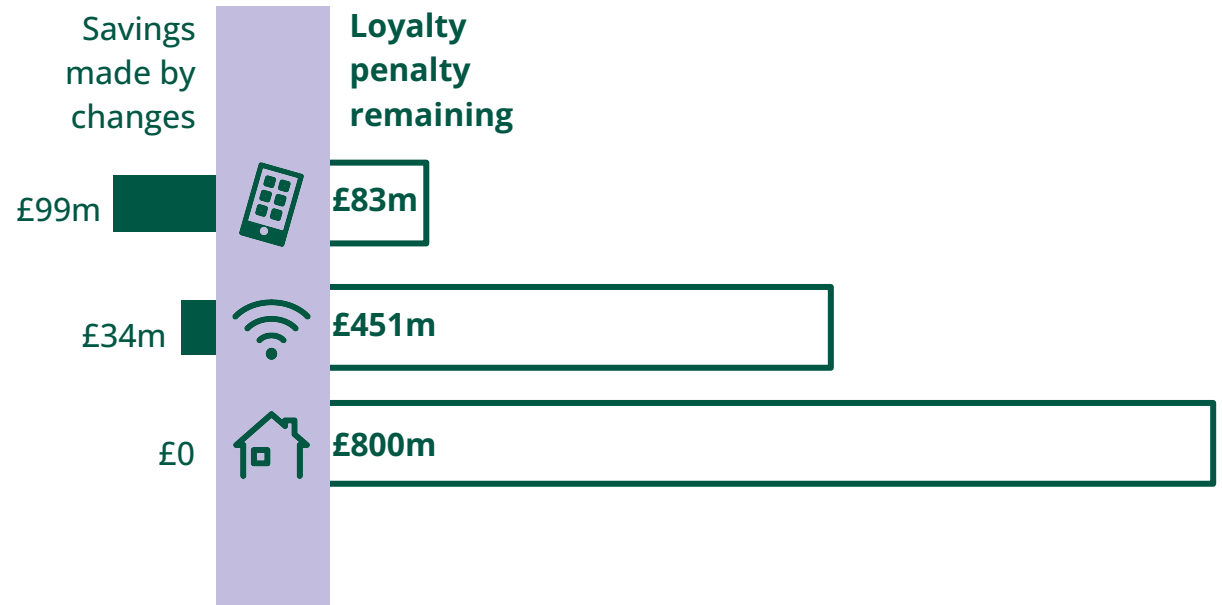
People pay the loyalty penalty when they don't switch at the end of their contract or fixed-term. There are good reasons why people don't switch. Around **1 in 5 find it too difficult or time consuming**, and a **quarter of a million people** (3%) didn't even know they could switch.



1 in 7 pay the loyalty penalty in at least one market

The loyalty penalty isn't driven by inflation or other rising costs for firms. It's baked into pricing models, **exploiting consumers that don't switch for profit.**

Regulators have taken some steps to address this in recent years, but these have fallen short of fixing the problem. Even with measures taken by some providers, regulators have estimated that **the loyalty penalty costs consumers £1.3bn each year.**



Regulators are dragging their feet

Since our super-complaint in 2018, regulators have taken some steps to address the loyalty penalty, but **progress has been slow and patchy.**

The FCA took bold action in the insurance market, banning 'price walking' so that loyal customers cannot be charged more than new customers.² This has set the bar high for tackling the loyalty penalty. But, they have so far **not introduced any proposals to tackle the mortgage loyalty penalty.**

Ofcom have worked with some providers to reduce the loyalty penalty in the mobile market and some have ended it altogether. **But other providers have not taken action, leaving their customers still at risk of overpaying.**

Ofcom also reached voluntary commitments with broadband providers to reduce the loyalty penalty for people in vulnerable circumstances, but **these still leave many customers at risk of overpaying.**

September 2018

Citizens Advice super-complaint to the Competition and Markets Authority (CMA)

Summer/Autumn 2019

Ofcom seeks voluntary commitments in broadband and mobile markets, but agreement from industry has been patchy

May 2021

FCA introduces new rules to ban the loyalty penalty in the insurance market

March 2019

FCA finds £800m loyalty penalty in the mortgage market, impacting 1 in 10 mortgage customers

March 2020

FCA publishes research into mortgage switching, but makes no firm commitments to policy change

June 2022

Government announces measures to allow customers struggling with telecoms bills to move to cheaper tariffs, but nothing on the loyalty penalty

Action is needed now more than ever

Regulators' failure to fix the loyalty penalty has **left consumers exposed in the current cost-of-living crisis**. Had the loyalty penalty been resolved earlier, many consumers could have been more resilient to the rising costs they are now facing.

Nearly half of people paying the loyalty penalty told us that they're **struggling to cope** with the rising cost of living.

Nearly 70% reported feeling anxious about their financial situation, and **4% had already fallen behind on essential bills**. We also found that of those paying the loyalty penalty:

65% are worried about keeping up with their bills

3 in 10 have had to cut back on essentials like food and heating

41% have struggled to sleep due to their finances

We've also found that **people on low incomes** - who are least resilient to rising costs or overpaying for essentials - are **more likely to be paying** the loyalty penalty.



People on low incomes are 2x more likely to be paying the loyalty penalty

Government have provided some welcome financial support for those struggling to cope with the rising cost of living. **But this risks being undermined by continued poor practice from companies** charging the loyalty penalty. The cost of paying the loyalty penalty **in all 3 markets could be up to £1,114 per year**. This far outstrips measures such as the energy bill grant provided by government to support households.³



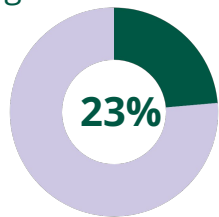
At a time when millions are struggling to make ends meet, we can no longer accept that companies are getting away with overcharging loyal customers. **Regulators need to act to crack down on unfair practices**, and put money back into the pockets of consumers.

Mortgage loyalty costs the most, but no action has been taken

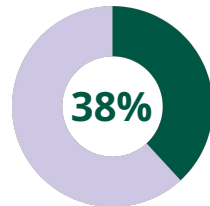
For those with a mortgage, it's one of their largest and most important outgoings. Most people sign up to a fixed-rate mortgage, which means the interest rate is set for between 2 and 5 years. After that you roll onto the Standard Variable Rate (SVR), which is normally **much higher**. The average SVR recently reached **over 5% for the first time in 13 years**.⁴

We've found that **8% of people** (around 630,000 mortgage customers) - 11% of fixed-rate mortgage customers - have come to the end of their fixed-rate mortgage and haven't switched, meaning they're likely to be overpaying by being on the SVR.

The FCA has previously estimated that mortgage customers on the SVR were overpaying **by £1,000 a year** on average.⁵ This is very worrying, given that **over 2 in 5 people** paying the mortgage loyalty penalty are also struggling with the cost of living.



have struggled with mortgage repayments



2 in 5 have lost sleep over their finances

Reducing this overpayment could make a significant difference to those struggling to keep their heads above water - it could cover the cost of **over 2 weeks average energy use** per month.⁶

To help consumers, the FCA has come to voluntary agreements with firms to give existing customers on the reversion rate the chance to move to a new deal if they meet certain criteria, **but this doesn't go far enough**.⁷ To avoid paying the SVR, customers need to switch at the end of their fixed term. But, in practice **many people don't switch**. Around a quarter of people think - often incorrectly - that they're on the best deal available, but another **nearly 1 in 4** who didn't switch said it was **too difficult or time consuming**.

We're also concerned that people may be unaware of the additional cost of rolling onto the SVR, meaning there is **little incentive for firms to compete to offer lower SVR rates** to attract new customers, so those on the SVR get a bad deal.

Most people (60%) say they didn't take the SVR into account when taking out a mortgage

Around **1 in 3** of those who didn't switch **weren't aware of the SVR at all** when taking out a mortgage

The FCA will soon introduce a new Consumer Duty for firms. **Exploiting consumer loyalty for profit is unlikely to comply with the fair value principle** of the Consumer Duty, and should be addressed urgently. The FCA should explore alternative models to high SVRs at the end of fixed terms, so that consumers are not overcharged.

Mobile customers are still charged for handsets they've paid off

Mobile customers on bundled contracts - where the monthly price includes both a handset and airtime - may be paying the loyalty penalty if their contract has ended and they haven't switched deals. This is because some providers **continue to charge customers for a handset after they have paid it off.**

The regulator Ofcom has reached voluntary commitments with most mobile providers to completely remove the price difference for out of contract customers.⁸ But despite this, we estimate **1.5 million people are still paying the loyalty penalty.** This is because some of the big providers continue to overcharge loyal customers.*

Ofcom's latest data on average monthly overpayments concerningly found a **significant increase** between 2018 to 2020, with customers being overcharged **£83 million a year.**⁹ We're worried that if this trend has continued, people **could now be facing even higher overpayments** alongside other rising costs.

* In 2021, Ofcom reported that for customers on bundled contracts who've been out of contract for three months, EE applies a 10% discount, Vodafone applies a £5 monthly discount for contracts over £11 taken out before June 2021, and that Three does not give a discount. Vodafone customers that took out bundled contracts after June 2021 are charged separately for airtime and handsets and will no longer pay the loyalty penalty.¹⁰

Efforts have been made to encourage switching, but these have had limited impact. Mobile providers have to send customers a notification at the end of their contract, but **35% of people report not receiving them.** Firms are also now required to provide simple cost breakdowns of handset and airtime costs for bundled contracts.¹¹ More information may help some customers, but we found that even when customers know about switching they can face barriers - **1 in 3 found it too difficult.**

Being unable to switch can have a big impact, especially at a time of increased financial strains. Of those paying the loyalty penalty in the mobile market, we found that:

1 in 3 had cut back on essentials like food and energy

50% worried about paying their mobile bill in the next 6 months

Disabled people are **twice as likely** to be overcharged

Ultimately, **consumers shouldn't have to shop around to avoid paying for a handset they've already paid for.** The onus must be on the regulator and firms to protect customers, particularly during a cost of living crisis.

Broadband companies still overcharging millions

Broadband customers who stay with their provider on the same contract after their initial contract period ends often pay much higher prices than new customers. In 2020, Ofcom estimated that 35% of all broadband customers were out of contract, paying a loyalty penalty totalling **£451 million a year**.¹² Our latest research found that **33% of people are at risk of paying the loyalty penalty**, suggesting little to no progress has been made, and **7 million customers** are still being overcharged.

Ofcom has reached welcome voluntary commitments to support some customers. Most broadband providers have agreed to introduce protections to move 'vulnerable' out-of-contract customers onto better prices annually. While these measures are welcome, they fall short of ending the loyalty penalty completely.

Despite these measures, many vulnerable and low income customers continue to be overcharged. This additional cost has a disproportionate impact, because those least able to afford broadband pay proportionally a lot more for it. Analysis of 165,000 budgets of people who came to Citizens Advice for debt help found **those with the lowest incomes still spend almost double** the proportion of their income on telecoms than the highest earners.¹³

This is especially concerning because on average **1 in 3 people** paying the loyalty penalty told us that they **were worried about paying their broadband bill** in the next 6 months, and **for people who receive means tested benefits this more than doubled**. The negative impact of this is clear, we found **36% of people paying the loyalty penalty have lost sleep** because of their financial situation.

While many customers shop around to get the best deals, they shouldn't have to do this to avoid being overcharged by their current provider.

"...new customers are paying £50 less than me for the same deal. How on earth can they justify me paying so much more - especially as I was with them for 16 years."

Tracy*, paying the loyalty penalty on their broadband bill

Regulators and firms should explore **bolder action to tackle the loyalty penalty** in the broadband market.

At a time when people are struggling to make ends meet, **regulators have a responsibility to ensure that consumers who don't regularly switch are protected from the loyalty penalty.**

What now?

As households feel the impact of the cost of living crisis, government, regulators and essential service providers all have a role to play in protecting consumers.

But too many companies are continuing to **help themselves rather than struggling consumers**. It is unacceptable that consumers are still being charged the loyalty penalty, **costing millions that could help them manage skyrocketing energy bills or put food on the table**.



£1.3 billion
Total loyalty penalty

Regulators must act now to **finally end this systematic rip off of millions of consumers**, and government should be ready to step in if needed.

Mortgages

The FCA last published research on the mortgage loyalty penalty in 2020, but since have **not put forward sufficient proposals to address the problem**. Action on insurance has been comprehensive and welcome; we now need to see similar ambition shown on mortgages. Our evidence has shown that solutions focused on encouraging switching will not be effective for consumers. The FCA needs to assess alternative interventions to **ensure consumers are not overpaying**.

Mobile

No-one should be **paying for a phone they've already paid off**. The voluntary commitments many providers have already made are welcome, but EE and Three are still lagging behind. Government has the remit to enable Ofcom to require firms to end the practice of overcharging for handsets. This could make sure **no consumers with these companies are charged a loyalty penalty** for a mobile phone they've already paid for.

Broadband

Many providers have taken steps to support their vulnerable customers who were paying a loyalty penalty. But firms are **still charging a loyalty penalty to the tune of £451m** for out-of-contract consumers. Ofcom should take further steps to make sure no loyal customers overpay for their broadband.

Methodology

Citizens Advice commissioned Opinium Research to survey 3,087 UK adults (18+) about their mobile phone, broadband, and mortgage contracts, their experience of switching and how they are managing the cost of living crisis. Fieldwork took place online, between 15th and 23rd June 2022. All survey statistics are from this polling, unless otherwise stated.

Calculations

1. 1 in 7 people pay the loyalty penalty

- a. People were classed as paying the loyalty penalty based on how long they had been with their current provider in each market. The same methodology was used for the super-complaint submitted by Citizens Advice to the CMA in 2018.
- b. A Citizens Advice researcher attempted to find the longest fixed-term contract available in each of the markets. Where many different contract lengths were available, the longest period was chosen, even if many providers only offer shorter length contracts. For mortgages, respondents were asked the length of their initial fixed-rate mortgage contract to establish whether they were paying the loyalty penalty.

2. £1.3 billion loyalty penalty across mortgage, mobile and broadband markets

Regulator estimates were used for the average costs of the loyalty penalty in each market.

- a. **Mortgages** - The FCA estimated the mortgage loyalty penalty is £800 million; FCA, [Mortgages market study](#), 2019.
- b. **Mobile** - Ofcom's latest report estimates the mobile loyalty penalty is £83 million; Ofcom, [Helping customers get better deals](#), 2021.
- c. **Broadband** - Ofcom currently estimates the broadband loyalty penalty is £451 million; Ofcom, [Helping customers get better deals](#), 2021.

Notes

*Name changed to protect anonymity.

References

1. Citizens Advice, [Excessive prices for disengaged consumers: A super-complaint to the Competition and Markets Authority](#), 2018.
2. Financial Conduct Authority (FCA), [General Insurance pricing practices market study: Feedback to CP20/19 and final rules](#), 2021.
3. Comparison between £400 [Energy Bills Support Scheme](#) payment announced by UK Government in April 2022, and total possible loyalty penalty of £1,144 per year (across all 3 markets).
4. The Guardian, [Average SVR mortgage paid in UK tops 5% for first time since 2009](#), 2022. Data on SVR rates sourced from [Moneyfacts](#).
5. FCA, [Mortgages Market Study](#), 2019.
The FCA's latest research was conducted in 2018, using data from 2016. The FCA found that around 800,000 customers on a reversion rate for six months or more did not switch when it would benefit them to do so. Their analysis estimated that the average saving for these customers would have been £1,000 per year for two years. The same analysis estimated that a further 790,000 customers on a reversion rate for 6 months (who did not switch) would not benefit from switching.
6. Based on energy price cap of £1,971 as of July 2022. Average annual mortgage loyalty penalty = £1,000 (£83 per month). Broken down, energy costs on average £5.40 per day. 15 days of energy (£81) is roughly equivalent to the extra monthly cost of the mortgage loyalty penalty (£83).
7. FCA, [Mortgages Prisoners Review](#), 2021.
8. Ofcom, [Fairness for customers commitments: Progress review](#), 2021.
9. Ofcom, [Helping customers get better deals](#), 2021.
10. Ofcom, [Helping customers get better deals](#), 2021.
11. House of Commons Library, [Telecoms: fairness and protection for consumers](#), 2021.
12. Ofcom, [Helping customers get better deals](#), 2021.
13. 165,779 people who came to Citizens Advice for help with debt completed a Budget Planner between January 2019 and March 2022 and reported their telecoms costs (including mobile, broadband, landline and TV costs). The Budget Planner is a detailed examination of the finances of someone in debt which considers their income, expenditure and any existing debts they hold. The medians are calculated based on people who have both mobile phone and broadband costs recorded. Those with an income of less than £400 per month spent the equivalent of 8% of their total expenditure on telecoms, whereas those who have an income of over £3,200 per month spent the equivalent of 4.1% of their total expenditure.

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