

PAWNBROKING CUSTOMERS IN 2020

A SURVEY OF PAWNBROKING CUSTOMERS

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ABOUT THIS REPORT

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EXECUTIVE SUMMARY

This report details findings from a new online survey of 1,669 pawnbroking customers nationwide conducted in February and March 2020. The survey was undertaken before the full impact of COVID-19 was felt in the UK. The report also considers loan-level management information of 85,000 loans from some of the biggest pawnbroking companies in the UK using data up to and including December 2019.

Since the previous survey, conducted a decade ago (Collard and Hayes, 2010), the landscape of credit regulation and the role of pawnbrokers in the market has changed significantly. A review of the pawnbroking industry in 2018 by the Financial Conduct Authority identified a number of key strengths in sector; but nonetheless raised concern about how fairly customers were treated when they did not redeem the pledge. The National Pawnbrokers Association (NPA) commissioned this research to gain insight into the views and experiences of their customers in light of these changes.

CUSTOMER PROFILE

Broadly speaking, the profile of customers in our 2020 survey was similar to that in 2010 (Collard and Hayes, 2010; Collard et al, 2013). As in the 2010 pawnbroking customer survey, customers surveyed in 2020 were more likely to be women (67 per cent) and two thirds were under the age of 54. Around a third of customers were living in households with dependent children (34 per cent), lower than the national average of 42 per cent.¹

Around one third of customers (31 per cent) were living in households in which no one worked, in comparison with over half of respondents in the 2010 survey. A quarter of respondents were homeowners, with the same number renting privately, and 43 per cent renting from the social sector. The majority of customers we surveyed had a household income of less than £1,500 per month, far below the UK median income of £2,364 in 2018.²

USE OF FINANCIAL SERVICES

Most customers surveyed in 2020 (86 per cent) had some form of transactional bank account. While this is much lower than the UK population as whole, it is higher than the pawnbroking customers surveyed in 2010 (77 per cent). Just under two thirds of customers (61 per cent) had used another form of credit in the previous 12 months, the majority using only one other source. Informal borrowing, from family or friends, was the most common

1

<https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/families/bulletins/familiesandhouseholds/latest>

2

<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/yearending2018>

type of borrowing, along with home collected credit, or credit cards. Those who were unbanked were less likely to have used any other form of credit.

FINANCIAL WELLBEING

While the majority of households were managing their finances reasonably well, just over one fifth (22 per cent) of those surveyed reported that they were struggling to keep up with their bills and credit commitments. This was more common among workless households who were not retired, and among households with dependent children. However, around three quarters (76 per cent) had experienced an event in the last 12 months which had a negative financial impact on their households. This was most commonly from personal reasons, such as a bereavement or a health issue.

USE OF PAWNBROKERS

When asked for three main reasons for using a pawnbroker, survey respondents most often cited convenience (45 per cent), speed (39 per cent) and simplicity (37 per cent). One in five (21 per cent) said that one main reason for choosing a pawnbroking loan was value for money. Around a quarter of customers (26 per cent) gave reasons related to credit constraint, or limited access to credit.

The median amount borrowed (based on management information) was £120, with a mean loan average of £243. The most commonly pledged item by far (based on the survey) was gold jewellery, with one in ten pledging diamond jewellery, and 6 per cent pledging a watch.

Most customers surveyed had taken out their most recent (or only) loan within the previous three months (63 per cent) and a similar number (62 per cent) had only ever used one pawnbroker. New customers were around one in five of our survey sample (18 per cent). As with the 2010 survey, the majority of customers had taken out a loan to pay for day to day living expenses (59 per cent) or to pay bills (14 per cent).

Nearly eight of ten customers (79 per cent) were confident that they had understood how pawnbroking worked before they first used it. Those who were unbanked were less likely to report that they understood how it worked.

OUTCOME OF LOAN

Of the loans which had become due by the time of our survey, two thirds (62 per cent) of survey respondents had redeemed the loan, one quarter had renewed the loan, and 14 per cent had forfeited the item. Those who were 'struggling' to keep up with bills were more likely than others to renew the loan, whereas those who had experienced a negative financial event were more likely to have forfeited their item. Items for which the loan was

for less than £50 were more likely to be forfeited as well; and repeat customers were more likely to have forfeited their pledges than first time borrowers.

Most customers felt it was important to be able to renew their loans, with 83 per cent believing it to be very important. When asking those who renewed their loan what other options they had considered, only 3 per cent considered forfeiting their loan. While most had renewed their loans because they didn't want to lose their items, a quarter also believed it was the cheapest option available to them at the time. Nonetheless, it is assumed that, of these, the majority would have lost the item if they were not able to have renewed.

Those who forfeited their items, generally did so because they did not have the funds to redeem them (71 per cent) rather than because they didn't want the items anymore (29 per cent).

CUSTOMER SATISFACTION

Most customers reported they were satisfied with the service from the pawnbroker they used (91 per cent), including three-quarters (76 per cent) who were very satisfied. This represented a nominal increase in satisfaction than was seen in the 2010 survey. However, those who had renewed their loans were more likely to be dissatisfied (8 per cent) than those who had either redeemed (or intended to redeem) their loan or had forfeited it (3 per cent), although dissatisfaction was still at a low level among this group.

The main perceived advantages of pawnbroking related to accessibility, the process being quick and easy to understand (30 per cent), involving no credit checks (28 per cent) and lending to people with a poor credit history (17 per cent). The main perceived disadvantage was the risk of losing the pledged item (72 per cent). Only one in twenty (5 per cent) considered pawnbroking to be a high-cost borrowing option compared with over a quarter (27 per cent) in the 2010 survey.

CONCLUSIONS

The findings reported here indicate that most customers are aware of, and satisfied with, the way pawnbroking works. Most were clear in their understanding of how the loans work. While pawnbroking customers generally have low incomes, are likely to struggle with bills and experience negative household financial events, our analysis reveals no specific vulnerability emerging in relation to their engagement or interaction with the pawnbroking market specifically or the outcomes that result from these. These findings support the conclusion of the FCA's 2018 review of the pawnbroking industry that the pawnbroking

industry was “*not a priority area in terms of potential risk or harm to consumers*”.³ The findings would also tend to corroborate the key strengths in the pawnbroking industry identified in the FCA’s review, such as a strong consumer focus and flexibility and personalisation of product terms.

Concerns were raised in the FCA’s review specifically about the treatment of pawnbroking customers when they did not redeem the pledge. Based on the current study, the ability to renew a loan at the end of the agreement appears, in many ways, to be a fundamental benefit of pawnbroking loans and how they are perceived and used. This suggests that renewal is considered a useful facility by people who might otherwise have limited options to repay. It is also clear from the evidence that forfeiting items is normally seen by customers as a last resort. It is noteworthy that prior pawnbroking customers are significantly more likely to forfeit their items for this reason than first-time pawnbroking customers. This implies a particular awareness of the risk of forfeiture among those most likely to experience it.

The main drivers for renewing loans or forfeiting items among our survey respondents were external events or financial circumstances. Those who renewed were far more likely to be falling behind on bills than those who redeemed their loans. Levels of satisfaction suggest that while loan outcomes may not always be ideal for individuals (i.e. if the goods are forfeited or the loan is renewed), and not what was aimed for, those who borrow from a pawnbroker opt for that risk over the other options available to them. Forfeiting goods is particularly relevant among those who have experienced negative change in their household circumstances (which, when paired with their low incomes, makes redeeming unlikely). This highlights the continued importance of both renewal and forfeiture as options for pawnbroking customers.

Although pawnbroking sits within the FCA’s high-cost credit portfolio, cost was not a concern of many customers in this survey (and fewer than in the 2010 survey). Small loans, by their nature, often come at a higher cost of borrowing (Kempson et al, 2009), and the interest rates typically charged against pawnbroking loans reflect this. Attempts to measure high-cost credit, including in the calculation of the poverty premium, have therefore tended to include pawnbroking (Save the children, 2010; Davies et al, 2016). However, pawnbroking has recently been shown to be at the lower end of the range in terms of cost when compared with other types of alternative credit (Davies and Trend, forthcoming). Again, this corresponds to the FCA’s judgment that intervention is not currently needed in this market.

Moreover, the particular nature of pawnbroking sets it apart from other forms of alternative borrowing. The fact that the loan is secured on a pledge is key. Reflecting the different nature of the loan type, it is important to recognise that payday loan customers tend to

³ <https://www.fca.org.uk/publications/multi-firm-reviews/pawnbroking-sector-review>

have higher incomes than pawnbroking customers (Collard et al, 2013). Therefore, the impact of a lack of access to pawnbroking loans may differ from other types of alternative lending, and HCSTC (i.e. payday loans) in particular.

Overall, in determining the course of action that is in the best interest of the customer, one important consideration is that pawnbroking loans are often taken out to manage day-to-day living costs. Therefore, the potential detriment caused by not being able to borrow must be considered when assessing the impact of these loans. It is recognised that a consequence of not being able to access small loans may result in defaulting on other commitments (Collard et al, 2013). The FCA does recognise the need for small, consumer loans. And the findings of the current study, particularly those reflecting the circumstances in which pawnbroking customers take out their loans, only underline this need.

With other alternative loan types, or other unsecured loans, there may also be potential detriment in the consequences of borrowing which arise because the loan must be repaid, otherwise debt collection will be triggered. In the context of pawnbroking loans, while those who use them rarely intend to forfeit the item, the result of failure to redeem is the sale of the pledged items, with no further debt obligation.

1. INTRODUCTION: PAWNBROKING TODAY

This chapter sets the scene for a new study of pawnbroking in the UK with an overview of the pawnbroking industry and its regulation and a summary of the study aims and approach.

This report details the findings of the 2020 pawnbroking customer survey. A decade on from the previous customer survey (Collard and Hayes, 2010), the NPA commissioned this research to update their knowledge of their members' customer base, and to understand the views and experiences of customers.

THE UK PAWNBROKING INDUSTRY IN 2020

What is pawnbroking?

Pawnbroking as a means of lending has a long history in the UK, dating back to the Normans, peaking in popularity in the late Victorian era, where there were said to be as many pawnbrokers as public houses.⁴ The basic premise of pawnbroking, lending money secured against an item of value, remains to this day.

- Customers take the item to the pawnbroker, where they agree the amount that will be lent.
- A loan agreement is taken out, detailing the length of the agreement (traditionally six months) and the rate of interest charged.
- Customers have 14 days 'cooling off' to withdraw from the agreement.
- The agreement is secured against the item pledged and if the pawn is not redeemed the pawn may be sold.
- The customer will not be chased for any debt that exceeds the sale value of the item, but if there is surplus on the sale, after costs, this can be collected by the customer.
- The loan is made against the valuation of the pawn and since the debt would not be chased in any case, there is no regulatory requirement for a credit check.

Currently, at the end of a pawnbroking contract, the customer has four options:

1. The customer may choose to pay off the capital and interest and redeem their item.
2. They may repay the interest and some of the capital.
3. They may choose to forfeit the item.
4. They may choose to repay the interest owed as part of the contract, but to take on a further contract based on the original pledge.

What do we know about pawnbroking customers?

At the time of the previous pawnbroking customer survey commissioned by the NPA (Collard et al, 2010), little was known about pawnbroking customers. The evidence suggested that fewer than one per cent of the adult population used a pawnbroker (Kempson and Whyley, 1999; OFT, 2009), rising to around two per cent of people on low incomes (GfK, 2007). Analysis of the Wealth and Assets Survey 2006/08 (PFRC, 2013) confirms that home collected credit was the most commonly used type of high cost credit,

⁴ <https://www.historic-uk.com/CultureUK/The-Pawnbroker/>

with fewer than one percent having used a pawnbroker (p12). However, pawnbroking use has subsequently increased. In fact, the landscape of higher cost credit has changed dramatically since the 2010 customer survey and we explore this further below.

In 2013, the former Department for Business, Innovation and Skills commissioned a review to help understand the likely impact of a cap on the total cost of credit, on both businesses and consumers (PFRC, 2013). As part of the review, a consumer telephone survey was conducted with 1,451 customers of home credit companies, pawnbrokers and payday lenders, of which 264 were users of pawnbrokers.

This survey found that pawnbroking customers were more likely to be women (59 per cent) and relatively young: 72 per cent were under 50, and over a quarter were under 30 (28 percent). Nearly two thirds (63 per cent) lived in rented accommodation, and they were likely to be on a low income (70 per cent). In comparison with users of other forms of higher cost credit, users of home-collected credit were similar in being predominantly female and lower income, although home collected credit users were general older. Retail payday loan users had a similar age profile to pawnbroking users but were split fairly equally between men and women. Online payday loan users were dissimilar to other high cost credit borrowers as they were more likely to be men, to be younger and to be better off.

In terms of borrowing behaviour, pawnbroking customers, as with both retail and online payday users, had often used their loan to pay for everyday costs and expenses. Holding multiple loans at the time of survey was most common among home credit borrowers (45 per cent), however, a quarter of pawnbroking customers had two or more of these types of loan at the time of the survey interview. 14 per cent of pawnbroking customers had renewed their most recent loans when it became due; a similar number to retail payday loan customers. One in ten had forfeited the item they had pledged.

Convenience and customer service were commonly reported motivations for using pawnbroking loans, with around half of pawnbroking customers reporting that convenience was why they had used pawnbroking rather than another form of borrowing. A similar number were satisfied with their current lender. Previous research has already found the importance of convenience in use of pawnbroking loans (Collard and Hayes 2010). Pawnbroking was seen to offer a quick and easy way of obtaining cash loans without the need for a lengthy application form or credit checks (Collard and Kempson, 2005) and, while the cost of borrowing from a pawnbroker was relatively high, it may nonetheless have offered better value than some of the other options open to those with a low income (Collard and Kempson, 2003).

The regulatory landscape

The first ‘modern’ pawnbroking regulations were established through the Pawnbroking Act of 1800,⁵ which was amended a number of times before The Pawnbroker Act 1872 repealed or consolidated all previous legislation. As the legislation increased and the popularity of pawnbroking spread, the National Pawnbrokers Association was established in 1892. The popularity of pawnbroking remained strong, although declining in post war years, which has generally been attributed to the financial support that the welfare state could offer poorer households.

The Pawnbrokers Act of 1872 was eventually subsumed into the Consumer Credit Act 1974; however, this act was only implemented for pawnbroking in 1985. The act meant that pawnbrokers had to be licensed with the Office of Fair Trading (OFT), and needed to comply with the regulations specific to pawnbroking, which cover pawn-receipts, realisation of pawn, loss of pawn-receipts and pawn records.

The Consumer Credit Act was amended in 2006, to offer greater protection to consumers, and to create a fairer and more competitive consumer credit market. The European Consumer Credit Directive was implemented into UK law in March 2010, which harmonised consumer credit law within member states, and further increased consumer protection. It is, however, worth noting that Pawnbroking was specifically excluded by EU countries, because of the unique nature of the service, with the exception of UK legislators, who chose to include it.

The nature of the so-called ‘high cost’ credit lending in the UK was altered considerably in 2015, with the introduction of a cap on the total cost of High-Cost Short-Term Credit (HCSTC).⁶ It was previously noted that such a cap might reduce the availability of small sum loans, such as those offered by pawnbroking, as these products would no longer be profitable for lenders to offer (PFRC, 2013). The potential detriment to pawnbroking customers if they were unable to borrow in this manner was also raised:

“For many pawnbroking and payday loan customers, going without the money they borrowed from a short-term lender would potentially mean defaulting on other financial commitments (especially household bills) or defaulting sooner”. (p.viii)

The new cap placed an initial cost cap of 0.8% of the outstanding principal per day, a cap on default charges of £15 and a total cost cap of 100% of the total amount borrowed. HCSTC loans are defined as *unsecured* loans with an annual percentage interest rate (APR) of 100%

⁵ <https://www.cambridge.org/core/books/consumer-credit-debt-and-investment-in-europe/the-legal-regulation-of-pawnbroking-in-england-a-brief-history/BF7884DFC050F33BE83D46EBFB968ACC/core-reader>

⁶ <https://www.fca.org.uk/publication/policy/ps14-16.pdf>

or more and where the credit is due to be repaid, or substantially repaid, within 12 months.⁷ As such, pawnbroking was to sit outside the definition for the cap.

The FCA continues to assess the landscape of what it refers to as the ‘high-cost credit’ sector, and it considers pawnbroking part of this portfolio.⁸ However, pawnbroking has not so far been subject to intervention. This is in contrast to rent-to-own agreements, for example, which the FCA extended a price cap to following a subsequent review on the basis that “a vulnerable group was paying too much for household goods” (FCA, 2018). Nonetheless, the FCA continues to monitor the pawnbroking sector, through its supervision and authorisation processes.

In its specific review of the pawnbroking sector in 2018,⁹ the FCA estimated that there were around 350,000 customers borrowing around £300m annually. Lending had grown by 14 per cent between 2017 and 2018, rising to nearly £340m. At that time, 290 firms were registered as pawnbrokers with the FCA, however, not all of these may have been actively lending.¹⁰ Many pawnbrokers had previously diversified by offering unsecured loans that were to be covered by the cap. In 2010, the NPA estimated that only 43 per cent of the turnover from its member Pawnbrokers was derived from pawnbroking loans, with around 13 per cent from payday loans, and 20 per cent from the sale of jewellery. The remainder was from Money Service Business (MSB) activity, such as cheque chasing, which is regulated by HMRC. However, since the HCSTC cap was introduced, payday loans are no longer offered by pawnbrokers, and few pawnbrokers offer cheque cashing due to a decline in their popularity. Pawnbroking loans are currently estimated to be 60 per cent of the total turnover from NPA member pawnbrokers.

In their review, the FCA review found that the pawnbroking industry was “*not a priority area in terms of potential risk or harm to consumers*”. The review also identified a number of key strengths in the pawnbroking industry, in particular how the business model was very customer focussed building longstanding and trustworthy relationships between the pawnbroker and the customer, and the interest of customers was served through a flexibility and personalisation of product terms. A study of the comparative costs of alternatives to mainstream credit in 2019, calculated in the context of the poverty premium, also found that the cost of pawnbroking loans to customers were at the low end of the range (costing the average customer £152 per annum in interest, compared with £182 for

⁷ <https://www.fca.org.uk/data/consumer-credit-high-cost-short-term-credit-lending-data-jan-2019>

⁸ <https://www.fca.org.uk/publications/multi-firm-reviews/pawnbroking-sector-review>

⁹ <https://www.fca.org.uk/publications/multi-firm-reviews/pawnbroking-sector-review>

¹⁰ The NPA estimate that there are around 150 firms active in the UK, the majority of whom are members of the NPA, trading via 1,058 stores.

rent-to-own and £237 on average for short-term loans).¹¹ The FCA did, however, raise concerns over how fairly customers were treated when they did not redeem the pledge, in terms of receiving surplus owned to them, and in terms of the amount deducted for costs of sale.

The NPA, therefore, wished to explore the extent to which their customers are treated fairly today. They were interested to understand if there are any issues of vulnerability and affordability among their customers generally and, for those who renew, to understand the reasons why customers take out new loans against existing pledges, and to gauge what detriment, if any, they would suffer if this facility was withdrawn.

Research aims

The aim of this research was to provide a snapshot of the pawnbroking industry in 2020 from the perspective of customers, and to learn more about their use of and attitudes to pawnbroking, and their general financial situation.

The main topics covered in our customer survey were:

- Key characteristics of customers and their households.
- Views about borrowing and money management.
- Loan amounts and redemption levels.
- Reasons for use of pawnbroker, other options explored, satisfaction with outcome.
- Where appropriate, reasons for renewal, other courses of action available, what the impact would have been if they were not able to renew.

Methods

An online survey was sent via email to customers of NPA member pawnbrokers,¹² who took out a loan or had an existing one between January 2019 to December 2019. As well as sending the email, cards with the survey details were printed, and distributed to customers in store, to allow those who have not given their email details to a pawnbroker the opportunity to participate. The survey explored the experience of using a pawnbroker, focusing on the most recent loan. Our analysis is of 1,669 responses in total collected in February and March 2020.

We also analysed loan-level management information, provided by four of the seven largest pawnbroking companies,¹³ to give a broader view of pawnbroking loans. In total, we received management information on over 85,000 loans. The data varied between

¹¹ For full details of methodology see the appendix of Davies and Trend (forthcoming). A previous study, in 2016, found that the annual cost of using a pawnbroker among low-income households was £50, compared with £120 for using payday loans, £315 for rent-to-own and £540 for home-collected loans.

¹² The survey was only sent to customers who had consented to receive such material.

¹³ Seven pawnbroking members accounted for 80% of the market in 2017.

companies, but mostly included age, sex, new customer, loan amount and eventual outcome. The management information mostly related to loans taken out in January to December 2019 (information from one company related to loans taken out in October 2018 exclusively).

We conducted cross-tabular analysis of the survey data to provide an overall picture of customers and their experiences. In addition, we also conducted regression analysis on the key outcomes of interest, so that we could control for the influence of factors such as age and sex. Regression is a type of multivariate analysis, meaning it can consider many characteristics simultaneously. Using logistic regression analysis, we reproduced the percentages of customers with a particular perspective or experience while holding all other things equal in the sample. The characteristics which we controlled for in this analysis were:

- gender;
- age;
- loan amount;
- how long ago the respondent took out their most recent pawnbroking loan; and
- whether or not they were a new customer to pawnbroking on that occasion.

Using this multivariate method increased the precision of our estimates of customer perspectives and experiences and enabled us to generalise the findings from the survey sample to the wider population of pawnbroking customers. Wherever the percentages altered as a result of using this method, we have given both percentages in the text. In most cases, the percentage did not change.

We also used regression analysis to explore the key drivers and predictors that matter to customers' pawnbroking perspectives, experiences or other outcomes, while holding all other things equal in the sample.

Where relevant, we report comparisons with the pawnbroking survey data collected in 2010 and highlight any major differences between 2010 and 2020 pawnbroking customers and their experiences.

This report

In Chapter Two, we explore in detail the types of people who use pawnbrokers, including their socio-demographic characteristics, economic circumstances and use of other financial services. Chapter Three explores the reasons why people took out pawnbroking loans and what happened to their pledges at the end of the loan term. In Chapter Four, we look at customer satisfaction with the pawnbroker they used, and their views of the advantages and disadvantages of using a pawnbroker over other forms of credit.

2. **PAWNBROKING CUSTOMERS & THEIR LOANS**

This chapter examines the characteristics and circumstances of pawnbroking customers in 2020 and the nature of the loans when they take them out.

PERSONAL CHARACTERISTICS OF PAWNBROKING CUSTOMERS

The NPA has previously estimated that, typically, 57 per cent of pawnbroking customers are women and 65 per cent are aged below 40.¹⁴ Based on the management information we were provided with, drawn from some of the larger NPA members, we found that 52 per cent were female and 48 per cent were male.¹⁵ A quarter of customers were aged below 35 (25 per cent) and a further 51 per cent were aged below 55. Altogether, 76 per cent were aged under 55, with only a small percentage aged 65 and over (7 per cent).

Compared with these figures, our survey sample slightly over-represents customers who were women (67 per cent), and slightly under-represents the under 55s (68 per cent). This is due to the self-selecting nature of the survey sample. For this reason, and because we expect that outcomes may tend to vary for customers depending on age or gender, we control for both characteristics in our results for key measures.¹⁶ In other words, we hold the effect of gender and age constant when calculating key outcomes for pawnbroking customers and their borrowing so that any bias in the sample based on these characteristics is removed.¹⁷

Table 1: Personal characteristics

		% of MI data	% of survey sample
Gender	Female	52	67
	Male	48	31
	Prefer not to say	n/a	1
Age group	18 to 34	25	15
	35 to 54	51	53
	55 to 64	17	24
	65 and over	7	8

In the 2010 survey, a similar percentage of the survey respondents were female (64 per cent), although the age profile was slightly younger than in 2020; 76 per cent in 2010 were aged between 20 and 49.

Other key characteristics, about the loan and customer, are also likely to be important for understanding the circumstances of and outcomes from borrowing from a pawnbroker.

¹⁴ https://www.thenpa.com/Media-Centre/Reports/Pawnbrokers_Meeting_Customer_Needs.aspx

¹⁵ Gender was missing, however, from the data supplied by one of the largest pawnbroking companies, so these figures may not be representative.

¹⁶ With an unknown distribution of age, gender and other key factors in the population of pawnbroking customers, it was not possible to undertake a weighting strategy.

¹⁷ To do this, we use analysis technique called regression (specifically logistic regression analysis), which examines the relationships between multiple variables simultaneously and controls for these when predicting outcome measures. See also the 'Methods' section.

Key household and socio-economic characteristics

Based on the survey sample we have explored the profile of pawnbroking customers based on a wider range of household and socioeconomic characteristics (Table 2).

Nearly a half of respondents were either single adults living on their own (24 per cent) or couples without children (24 per cent). A further third comprised single parents (16 per cent) and couples with children (18 per cent). The rest lived either in families with older children (9 per cent) or multi-adult only households (such as house shares, 8 per cent). It was most common for pawnbroking customers who responded to the survey to live in a home rented from a social landlord (42 per cent), with a further quarter living in private-rented homes.

Table 2: Household and socioeconomic characteristics (%)

Family type	Single adult household	24
	Couple without children	24
	Single parent with children < 18	16
	Couple with children < 18	18
	Family with children > 18 only	9
	Multi-adult only households	8
Housing tenure	Homeowner with mortgage	7
	Homeowner outright	18
	Social rented	42
	Private rented	25
	Living with parents/friends	5
	Other or prefer not to say	4

Sample size (n) is 1,669 survey respondents. Note that the sample size may be smaller for any individual measure due to item-missing response.

Over half (56 per cent) of pawnbroking customers were in work, with most of these (31 per cent overall) employed part-time. Of those not working:

- Nearly a quarter were unable to work for health reasons (23 per cent).
- Six per cent were unemployed and looking for work.
- The remainder were either retired (8 per cent) or looking after the family (7 per cent).

In total, 31 per cent of survey respondents lived in households in which no one was working; 12 per cent in which the only workers worked part-time; and 6 per cent who were retired households. Perhaps reflecting this, over a third lived in households with an income equivalent to up to £1,000 per month; only one in ten had incomes of over £2,500 per month. For context, in 2018, median income was £2,364.¹⁸

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<https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddisposableincomeandinequality/yearending2018>

Table 3: Employment status and net income (%)

Employment status.	Employed part-time	17
	Employed full-time	31
	Self employed	8
	Job seeking	6
	Looking after family/home	7
	Unable to work (long term sickness/disability)	23
	Retired	8
Workless household	No	69
	Yes	31
Retired household	No	94
	Yes	6
Part-time-only working household	No	88
	Yes	12
Net income, monthly equivalent (approximate)	Up to £1,000	34
	Up to £1,200 (if weekly)	7
	Up to £1,500 (if monthly)	21
	Up to £1,700 (if weekly)	5
	Up to £2,000	15
	Up to £2,500	8
	Over £2,500	10

Sample size (n) is 1,669 survey respondents. Note that the sample size may be smaller for any individual measure due to item-missing response.

To understand a typical loan amount in 2020, we look at the both the management information and the survey data. Loan amount varied considerably, with 16 per cent of customers borrowing less than £50 and 3 per cent receiving more than £1,000 for their pledge (or pledges) according to the management information. In total, 45 per cent took a loan for less than £100. In our survey sample, 35 per cent took a loan of less than £100, which suggests our survey data slightly under-estimates small loan users. The median amount borrowed (from the management information) was £120, with a mean amount of £243. Loans that were renewals of existing loans tended to be a higher than first loans, with a median amount of £193, and a mean amount of £370.

When we consider whether or not the customer was a first-time customer or had used a pawnbroker before, the management information from pawnbroking companies indicates that in the case of more than nine out of in ten customers they had used the same company before (91 per cent). Only 9 per cent were using the company for the first time. The proportion in the survey who said that this was the first time they had used *any* pawnbroking company was double this (18 per cent). The difference may partly be accounted for by the slightly different measures but could also reflect small sample differences. As a result, these two characteristics are also controlled for in our key results.

Table 4: Key loan and customer characteristics

		% of MI	% of survey
Loan amount	Under £50	16	10
	Between £50 and £100	29	24
	Between £101 and £200	25	23
	Between £201 and £300	11	23
	Between £301 and £500	9	7
	Between £501 and £1,000	6	8
	Over £1,000	3	5
New customer	No	91	82
	Yes	9 (this pawnbroking company)	18 (any pawnbroking company)

MI denotes management information.

Despite these small differences in the profile of pawnbroking customers and their loans, our survey sample generally reflects the management information reasonably well. We can be reassured that the survey sample represents a broad range of customers and experiences.

Customer profile by key loan characteristics

We explored how the key characteristics of those who borrow vary by loan amount, and whether they were a new customer or not.

Survey respondents who took out the highest value loans (of £500 or more) were more likely than average to be male, homeowners, to be in working households, to have a higher income and say they were managing financially. They were also more likely to be unbanked, which may help explain why they choose to use pawnbrokers as a means of borrowing. Single parents were also slightly more likely than average to borrow £500 or more.

Customers who took out the smallest loans, under £50, were more likely to be in single adult households, to live in socially rented accommodation and to be on a low income.

New customers were, perhaps unsurprisingly, more likely to be younger, to be in a working household and to be unbanked. There were no significant variations by gender, family type, being a fully retired or part-time only working household, household income or ability to keep up with bills and credit commitments. There was no significant variation in the amount of the loan taken depending on whether the customer was a first-time or prior user of pawnbroking.

Looking at survey respondents' wider use of pawnbroking loans, the largest group of survey respondents had taken out their very first pawnbroking loans within the last year, and 56 per cent had done so within the last three years. Just over one third of respondents had ever used two or more pawnbroking companies in total (38 per cent), with a majority using just one (62 per cent).

Table 5: Personal and household characteristics by loan amount

		Under £50	Between £50 and £200	Between £200 and £500	£500 or more	Ave.
Gender***	Female	69	70	68	56	67
	Male	29	29	31	43	31
	Prefer not to say	1	1	2	<1	1
Family type*	Single adult household	34	24	22	21	24
	Couple without children	20	24	24	28	24
	Single parent, children < 18	13	17	15	20	16
	Couple, children < 18	13	18	23	13	18
	Family, children > 18 only	12	8	9	10	9
	Multi-adult only households	9	9	7	8	8
Housing tenure***	Homeowner with mortgage	6	4	8	12	7
	Homeowner outright	9	16	19	28	18
	Social rented	51	48	39	21	42
	Private rented	23	25	25	28	25
	Living with parents/friends	6	4	4	6	5
	Other or prefer not to say	6	3	3	6	4
Workless household***	No	52	66	75	82	69
	Yes	48	34	25	18	31
Net income, monthly equivalent, approximate***	Up to £1,000	47	37	29	25	34
	Up to £1,200 (if weekly)	4	8	6	8	7
	Up to £1,500 (if monthly)	21	23	20	13	21
	Up to £1,700 (if weekly)	5	5	5	6	5
	Up to £2,000	11	13	18	18	15
	Up to £2,500	2	8	9	11	8
	Over £2,500	9	7	12	20	10
Unbanked (no transaction a/c)**	No	82	88	89	80	86
	Yes	18	12	11	20	14
Ability to keep up with bills and credit commitments** *	Keeping up without difficulties	26	26	31	36	29
	Keeping up, struggle time to time	47	50	45	33	46
	Keeping up, constant struggle	13	12	9	12	11
	Falling behind with some	8	7	7	7	7
	Fallen behind with many	3	4	4	3	4
	Don't know	4	2	3	9	3
<i>Sample size (n)</i>		<i>160</i>	<i>793</i>	<i>498</i>	<i>210</i>	<i>1,661</i>

Significance: *** p<.001 ** p<.01 * p<.05 refers to variation across the categories in a chi square test (assuming simple random sample). Individual pair-wise differences may not be statistically significant.

LOAN TYPE AND OUTCOMES

The usual repayment period for a pawnbroking loan is six or seven months. At the end of this period, the customer has the option of repaying the loan amount and redeeming the item, of renewing the loan for a further six months, or of forfeiting the item. We have used the management information to estimate the typical outcomes for those who take out a pawnbroking loan.

Based on all available information from the pawnbroking companies, the number of loans in our data that were renewals of existing loans ranged from 17% to 22% by company. Between 7% and 24% of all loans were renewed (including new loans and loans that had previously been renewed), while between 43% and 63% were redeemed, depending on the company¹⁹.

As many of the loans agreed in 2019 had not reached their loan term, these underestimate the different outcomes. When we consider only those loans which reached their term, the proportion that were renewed ranged from 15% to 73% depending on the company. The proportion of loans that were redeemed ranged from 63% to 93%. Based on the data from one company only, 19% of pledges were forfeited at the end of the initial loan.²⁰

In 2010, the management information we received then identified that 56 percent of pledges had been redeemed by the date they were due (including some that had been renewed already), 28 per cent were renewed, and 28 per cent forfeited the item.

THE WIDER FINANCIAL SITUATION OF PAWNBROKING CUSTOMERS

According to our survey data, over three quarters of customers were fully banked; had a current account, with a further one in ten having a basic account. This leaves 14 per cent without a transactional bank account. The level of unbanked in the general population is estimated to be at around 1 per cent,²¹ however, we would expect to see a higher level of financial exclusion amongst lower income households, such as pawnbroking customers.

In 2010, a similar number of customers surveyed did not have any form of bank account (10 per cent), however more customers had POCA cards at that time (10 per cent).

We asked the customers in the survey if they had used any other form of borrowing, aside from pawnbroking loans, in the last 12 months.

¹⁹ Because of the nature of the data available from the pawnbroking companies who supplied the management information, these figures come from a slightly different subset of companies and may relate to different actions against the same pledge (for example, a pledge may have been renewed and redeemed).

²⁰ We were only able to calculate, with confidence, the likelihood that a pledge was forfeited from one company's management information; and this related to the customer's action for the initial loan term only. All initial loan terms had expired.

²¹ <https://www.birmingham.ac.uk/Documents/college-social-sciences/social-policy/CHASM/annual-reports/chasm-annual-monitoring-report-2014.pdf>

Table 6: Bank account held (%)

Banking accounts held	Fully banked	77
	Basic account only	10
	POCA only	2
	No account	12
Unbanked (no transaction account)	No	86
	Yes	14

Sample size (n) is 1,669 survey respondents. Note that the sample size may be smaller for any individual measure due to item-missing response

In total, two thirds (69 per cent) had used at least one other form of borrowing, with half the sample having borrowed from only one other source. Just over one in ten (11 per cent) had borrowed from two sources, and 7 per cent from three or more.

Table 7: Credit use (%)

Number of types of credit used in the last 12 months	None	31
	One	50
	Two	11
	Three or more	7
Broad types of credit used in the last 12 months	Regulated credit	61
	Borrowed from a friend or relative	17
	Loan from an unlicensed lender	1
	Other	<1

Sample size (n) is 1,669 survey respondents. Note that the sample size may be smaller for any individual measure due to item-missing response

This borrowing pattern was broadly in line with customers surveyed in 2010, when 73 per cent had borrowed from another source, although in 2010, those who had borrowed elsewhere had borrowed from a greater number of source; on average, they had borrowed from two further sources, more than in 2020

In separate analysis (not shown), couple households with children were more likely to have multiple other forms of borrowing, and those who were unbanked, perhaps unsurprisingly, were less likely to have any form of borrowing.

There were also lower levels of informal borrowing among the customers surveyed in 2020 (Table 8 below). Only 17 per cent had borrowed from family and friends compared with 36 per cent of those surveyed in 2010. 61 per cent has used some form of formal credit, the most common being home collected credit (12 per cent), credit card usage (11 per cent), and budgeting loans, overdrafts and payday loans (10 per cent each).

Table 8: Specific types of credit used in last 12 months (%)

None	31
Borrowed from a friend or relative	17
Loan from a company that collects payments from your home	12
Used a credit card or store card that is not paid off each month	11
Budgeting loan	10
Payday or short-term loan	10
Borrowed on an overdraft	10
Loan from a bank or building society	9
Loan from a finance company	7
Bought goods in instalments from a mail order catalogue	6
Loan from a credit union or similar lender	4
Bought goods from a weekly payment store	2
Loan from an unlicensed lender	1
Other	<1

Sample size (n) is 1,669 survey respondents. Note that the sample size may be smaller for any individual measure due to item-missing response

Financial wellbeing

Three quarters of the customers we surveyed seemed to be managing reasonably well financially. When asked about their ability to keep up with bills and credit commitments, they either reported keeping up without any difficulties, or struggled from time to time. Over one in ten (11 per cent) were finding keeping up with their commitments a constant struggle, and the same number were falling behind (11 per cent).

Those in the lowest income households were most likely to find it a constant struggle to keep up, and those who were in workless households who were not retired, and among households with dependent children were more likely to be falling behind on commitments.

When asked about how frequently they ran out of money before the end of the month:

- 17 per cent said never or hardly ever;
- 40 per cent said sometimes; and
- 43 per cent said always or most of the time.

Table 9: Ability to keep up with bills and credit commitments (%)

Keeping up without any difficulties	29
Keeping up, but a struggle from time to time	46
Keeping up, but a constant struggle	11
Falling behind with some	7
Real financial problems and fallen behind with many	4
Don't know	3

Sample size (n) is 1,669 survey respondents. Note that the sample size may be smaller for any individual measure due to item-missing response

To better understand the financial position of pawnbroking customers, we asked whether they had experienced any events in the previous 12 months that negatively impacted on their household finances. Overall, only around one quarter (24 per cent) had *not* experienced any such event.

- 30 per cent had experienced a drop in income through work or benefit issues.
- One in five (21 per cent) had experienced an unexpected expenditure, such as replacing a boiler, or a cost relating to children.
- Over two in five (41 per cent) had been financially impacted for personal reasons such as bereavement or health issues.
- A small number (6 per cent) had been impacted by debt collection charges.

Pawnbroking customers have a higher level of financial difficulties than average, although perhaps at a level that may be expected given their modest incomes. The Financial Capability Survey 2015 found that in the UK population overall, 59 per cent of people were keeping up without any financial difficulties (MAS, 2015). Of those who were in receipt of benefits transitioning to Universal Credit, however, only 34 per cent were keeping up without difficulties, as were only 24 per cent of those who were unemployed.

3.

DRIVERS OF USING PAWNBROKING LOANS AND THEIR OUTCOMES

This chapter explores the reasons why people took out pawnbroking loans and what happened to their pledges at the end of the loan term. It also explores the factors which help explain different loan outcomes.

CUSTOMER'S MOST RECENT LOAN

For most of our survey respondents, their experiences were based on a loan taken out in the recent past. Just over six in 10 customers in the survey (63 per cent) made their most recent (or only) pledge within three months prior to completing the survey, rising to eight in 10 (80 per cent) in the six months prior. Just over one in ten (11 per cent) had taken their most recent pawnbroking loan between 6 and 12 months previously, and 10 per cent had most recently borrowed more than a year ago.²² The key characteristics of customers, their households or their loans, did not vary significantly with the timing of their most recent loan.

How long ago someone took their most recent loan out may affect both their memory of that loan, and the circumstances surrounding it, and how progressed they are in the loan term. For this reason, when customers pledged their most recent loan is included as an additional control variable in all key regression analyses relating to that loan.

Most of our survey respondents (83 per cent) pledged only one item type when they took out their most recent loan; a minority (17 per cent) pledged multiple different items. The most common material pledged was gold.

- Nearly six in ten people said they pledged 9ct gold, whether in the form of jewellery or other items (58 per cent).²³
- 21 per cent pledged 18ct gold jewellery, 13 per cent pledged 14ct gold jewellery and 9 per cent pledged 22ct gold jewellery.
- Among the other items, one in 10 people said they pledged diamond jewellery, and it was unusual for people to say they pawned gold coins (3 per cent).
- Six per cent of customers had pawned watches, and only 3 per cent had pawned silver items.

What people pledged did not tend to differ depending on whether they pledged one or multiple items. The exceptions were those pledging only one item type, who were more likely to pledge 9ct gold (62 per cent compared with 52 per cent overall) and were less likely to pledge watches (2 per cent compared with 8 per cent) and 'other' items (1 per cent compared with 3 per cent). However, it did vary depending on how much people received for their items.

REASONS FOR USE OF PAWNBROKING LOANS

When asked what they took out their most recent loan for, 87 per cent of pawnbroking customers in the survey gave only one reason; 13 per cent gave more than one reason.

- Six in ten said that they needed the money for day to day living expenses, such as food shopping (59 per cent).

²² Figures may not appear to sum correctly due to rounding.

²³ Due to small numbers of people pledging platinum items, white gold, and unspecified gold, these have been combined with the category for 9ct gold for reporting.

- The next most common answer given was to pay the rent, mortgage or other bills (14 per cent), with 5 per cent saying specifically that it was to cover arrears on bills.
- Birthday, Christmas and other special occasions were given as a reason by nearly one in ten pawnbroking customers (9 per cent).
- It was less usual for people to say that it was for socialising or going out (3 per cent), to pay for a holiday or holiday spending money (4 per cent) or to pay off existing credit commitments (4 per cent).

In 2010, reasons for borrowing were similar; customers surveyed were also likely to be using the loan to fund essential expenses rather than discretionary spending with 51 per cent using it for day to day living expenses, and 27 per cent to pay household bills.

In 2020, using a pawnbroking loan for day to day living expenses was more common among people who had used a pawnbroker before (60 per cent) than first-time customers (51 per cent). Apart from this, the reasons did not vary by customer type.

There was more variation regarding the loan amount. Borrowing for day to day living expenses was more likely among those borrowing between £50 and £100 (67 per cent), becoming even more acute where people borrowed less than £50 (84 per cent). In the case of larger loans of £500 or more, it was more common for people say they borrowed to cover the rent, mortgage or other bills (24 per cent), to pay off existing credit commitments (8 per cent) or to buy or repair a car (10 per cent).

There was considerable overlap for three of the reasons selected, which reflect borrowing for reasons of hardship: day-to-day living expenses; paying the rent, mortgage or other bills; and paying the arrears on bills. Overall, 59 per cent of people gave at least one of these answers. The same estimate was confirmed in regression analysis, which took into account the influence of age, gender, being a first-time or prior pawnbroking customer, the loan amount and how long ago they took it out.²⁴

The same regression analysis showed that the odds of someone giving one (or more) of these three reasons were significantly higher if a customer had previously used a pawnbroker than if they were a first-time customer (by a factor of 1.4).²⁵ They were considerably higher among people borrowing less, reflecting the results already reported above. The magnitude was substantial, however. For example, the odds that someone borrowing under £50 had borrowed for hardship reasons were 11 times those of someone borrowing £500, and four times higher if borrowing between £50 and £100.

Other key household, socio-economic and financial wellbeing characteristics were generally not significant drivers of the amount borrowed.²⁶ Only one factor made a difference, and

²⁴ This gives confidence that the figure from the sample is representative of the population of pawnbroking customers. See also the Methods section.

²⁵ Odds ratios are related to probabilities but are expressed in a different way. If an odds ratio is higher than another odds ratio by a factor of 1.5 then the probability is also higher, but it is not higher by a factor of 1.5. Instead, they operate on different scales. It is important not to interpret odds ratios as if they are probabilities.

²⁶ The measures included were family type, housing tenure, workless households, household income, financial exclusion (i.e. being unbanked) and keeping up with bills.

this was the respondent’s report of how well they had kept up with bills and credit commitments in the last 12 months. Given the relationship of this measure to the ‘hardship’ reasons considered here, this should be expected. Still, the independent influence of customer type and loan amount remained strong.

LOAN OUTCOMES AT THE END OF THE TERM

When asked if they redeemed the items pledged against their most recent loan at the end of the loan term, eight in 10 respondents in the survey sample said they had either redeemed them (33 per cent) or that they intended to (47 per cent; implying that the term had not yet ended). When excluding those still intending to redeem, 62 per cent of customers had redeemed their items, a quarter had renewed their loan (rising to 27 per cent when adjusting for sample effects in regression analysis) and 14 per cent had forfeited their items.

Table 10: Redeemed the most recent items pledged (%)

	Overall	If term due
Yes, redeemed the item or items	33	62
No, renewed the loan	13	25
No, items were lost (e.g. because did not redeem or renew)	7	14
No, not yet but intend to	47	-
<i>Sample size (n)</i>	<i>1,656</i>	<i>883</i>

Who renewed their loans or forfeited their pledges?

Perhaps not surprisingly, our survey data shows that borrowing larger sums increased the likelihood that someone renewed their loan once it became due. Loans taken out within the last six months were also more likely to have been renewed than less recent loans. In both cases, the findings were true independently of age and gender. In contrast, those borrowing less than £50 and a loan of more than a year ago were more likely to have lost the items they had pledged, other things being equal. Using the methodology applied by Davies and Trend (forthcoming), we assume interest of £78 to be paid on a loan of £130 of over six months.

When additional characteristics were considered in the analysis, demographic and socio-economic factors were not found to be important drivers of renewing loans. Looking at the influence of financial wellbeing factors – other credit use, negative events, and keeping up with bills and running out of money – only someone’s reported ability to keep up with bills was important. Those who said they had been keeping up without difficulty in the last 12 months were the least likely to renew compared with all others; while those who said they had fallen behind with some of their bills were 6.5 times as likely to have renewed.

A similar picture emerged for those who forfeited their items instead: household and socio-economic factors were not important for explaining who was at risk of losing the items they pledged. Neither were most measures of people’s financial product use (banking and credit) or other aspects of their financial wellbeing. Only experiencing a negative personal event

(such as health problems or bereavement) or a negative debt experience were associated with significantly higher odds of forfeiting items.

When taking these additional factors into account, the following characteristics all significantly increased the likelihood that someone had forfeited their pledge, all other things being equal:

- Having a low-value loan.
- Taking a loan out more than three months prior to the survey.
- Being a previous pawnbroking customer.

In conclusion, renewing loans and forfeiting items appear, respectively, to reflect customers' underlying financial difficulties and disruptive life events occurring at the household level rather than their personal, household or socio-economic characteristics. Notably, borrowing for reasons of hardship (to pay for day-to-day living, bills or arrears on bills) and for reasons of credit constraint were *not* important in our analysis for either of these loan outcomes.

THE IMPORTANCE OF RENEWING A LOAN

Prior pawnbroking customers completing the survey were asked how important it was to them to be able to renew their pledge. Respondents could answer on a scale from 1 (not at all important) to 5 (very important). The overwhelming majority of prior customers said that it was important (92 per cent; a response of 4 or 5 on the scale), including 83 per cent who regarded it to be *very* important. Only two per cent felt it had no importance to them. When the effect of the sample profile was controlled for in additional analysis, the corresponding estimates were 91 per cent and 82 per cent.

Table 11: The importance of renewing a loan (%)

1. Not at all important	1
2. Fairly unimportant	1
3. Fairly important	6
4. Important	9
5. Very important	83

Sample size (n) is 1,359 survey respondents who had used a pawnbroker before their most recent loan.

Those who were significantly more likely than others to think it very important to have the opportunity to renew were:

- women; and
- those with more recent loans.

When the customer's broader financial situation was factored in, the following became significant:

- Borrowing from friends or family in the last 12 months; this *reduced* the odds that someone thought the ability to renew was very important.

People's reasons for taking out their most recent loan and why they used a pawnbroker did not influence this. Whether the customer said they had used pawnbrokers more or less in the last 12 months also did not influence how likely they were to consider renewals very important.

Alternatives to renewing the loan

For respondents who had renewed their most recent loan, we asked additional questions to understand what other options, if any, they considered instead of renewing their pledges:

- Six in ten of these customers (61 per cent) reported having considered no other options.
- 18 per cent had considered borrowing from friends and family.
- 8 per cent had considered borrowing from somewhere else.
- Only 3 per cent said they considered losing the item.

This suggests that forfeiture was not the preferred outcome for most of these customers.

In regression analysis, these percentages were robust to potential sample effects, except that the number of people borrowing from another lender increased marginally, from 8 per cent to 9 per cent.²⁷

Taking those respondents who had not considered other options, from all the wider characteristics available, only living in a workless household was significant. This increased the odds that someone had not considered alternatives by a factor of around 2.3. For these customers it seems it was not realistic to afford to repay the loan, either themselves or by borrowing from elsewhere, even though they still wanted the items they had pledged.

Reasons for renewing the loan

When asked the main reasons why they chose to renew their loan, most survey respondents said that they did not want to lose the item they had pledged (62 per cent; this was 61 per cent when controlling for the sample profile).

For a quarter, however, one reason was that it was the cheapest option, and for one in five the easiest option. A significant minority said they could not borrow from anywhere else (12 per cent) while a small number (5 per cent) trusted pawnbroking more than other options.

Altogether, 29 per cent of people who renewed their most recent loan gave positive reasons of renewing (i.e. the cheapest option; more trust in pawnbrokers). Nonetheless, in most cases, one reason or part of the reason given for renewing the loan was due to push, or negative, factors.

²⁷ Due to the small numbers, it was not possible to verify the figure for 'losing the item'.

Table 12: Reasons for renewing instead (%)

Did not want to lose the item pledged	62
It was the cheapest option	25
It was the easiest option	20
Not able to borrow from anywhere else	12
More trust in pawnbroking	5
Other	1

Sample size (n) is 219 survey respondents who renewed their loans and answered this question. People could give more than one reason in their answer.

When asked what their single most likely option would have been if they had been unable to renew their pledges, six in ten said this would have been to forfeit or lose their item (60 per cent, increasing to 61 per cent when the sample profile was controlled). This rises to 68 per cent of renewals customers who said that they did not want to lose the items pledged.

The following groups were more likely to say they risked losing their item if they had not been able to renew their pledge:

- women (with odds higher than men by a factor of 2.6);
- Single parents compared with some other households; and
- those living in a household with a very low income.

It was also more likely if people had experienced negative events relating to expenditure or personal reasons. It did not relate to the reasons why they borrowed more or chose a pawnbroker to borrow it, and it did not reflect difficulty keeping up with bills or a propensity to run out of money. Again, the picture appears to show that forfeiting items is a last resort, and particularly relevant for those who have had some kind of negative change in their household circumstances (which, when paired with their low incomes, makes options for redeeming highly unlikely).

Table 13: Most likely option if unable to renew (%)

Would have lost the item	60
Would have borrowed from friends or family to redeem the items	30
Would have borrowed from a regulated lender to redeem the items	6
Would have borrowed from an unregulated lender to redeem the items	4

Sample size (n) is 213 survey respondents who renewed their loans and answered this question.

From the remainder of those who renewed their loans, most said they would have borrowed the money from friends or family so that they *could* redeem the items (30 per cent). A small minority would have gone either to regulated, licensed lenders (6 per cent) or to unlicensed lenders (4 per cent). For the most part, these would not have been positive outcomes for pawnbroking customers wanting to renew.

Why items were sold

Among those who had forfeited their most recent items and seen them sold by the pawnbroker, most (71 per cent) reported they could not afford to redeem their pledges in time, rather than not wanting the items enough anymore to get them back (29 per cent).

However, these figures were based on a small sample (of only 108 people who both said that their items had been sold and answered the question). When adjusted for potential bias in the sample profile, the best estimate of people in the population of pawnbroking customers who forfeit their items because they could not afford them is closer to 57 per cent (compared with 43 per cent who said they did not want the items enough).

These findings nonetheless resonate with the earlier finding that forfeiting was a last resort for people with few or no other options. It is also worth noting that prior pawnbroking customers were significantly more likely to have forfeited their items for this reason than first-time pawnbroking customers. Those on very low incomes were more likely than most other income groups to have been unable to afford to buy their forfeited items back. With the addition of measures relating to people's broader financial situation, there were again effects from having experienced negative events relating to expenditure and people's personal and family lives.

If survey respondents had previously used a pawnbroking loan separate to the one asked about in the survey, they were also asked if they had ever had an item sold in the past. In fact, a half (51 per cent) said they had never forfeited an item. Of the rest, 73 per cent said they couldn't afford to redeem or renew the items (adjusted to 74 per cent when controlling for the sample profile), while 27 per cent said they hadn't wanted the items anymore (adjusted to 26 per cent). In this initial analysis, women were more likely to say they could not afford to redeem the items, among those who had forfeited their pledges in the past.

Table 14: Why items had ever been sold (%)

	All	If ever sold
Never had a pledge go unredeemed	51	-
Couldn't afford to redeem the items	36	73
Didn't want the items anymore	13	27
<i>Sample size (n)</i>	1,356	669

When considering the widest range of potential influences women were still significantly more likely than men to say they could not afford to redeem the pledges, all other things being equal. This was due to factors such as running out of money all the time, borrowing from a pawnbroker most recently for reasons of hardship and credit constraint and borrowing larger amounts on the most recent occasion. These factors all increased the likelihood that someone had in the past forfeited items because they could not afford to redeem them, independently of other factors. This does tend to suggest a pattern of borrowing among these customers, with the debt being ultimately resolved in full by the sale of the item(s).

WHY PEOPLE CHOSE TO BORROW FROM PAWNBROKER

When asked for up to three main reasons why they chose to use a pawnbroker, survey respondents most often cited convenience (45 per cent), speed (39 per cent) and simplicity (37 per cent). One in five (21 per cent) said that one of their main reasons was value for money. Others, however, suggested that limited access to credit was a factor, with 18 per cent saying they had no other options to borrow money and 12 per cent saying that no credit checks was a reason for them (26 per cent said either of these). A small percentage indicated that they could go without the items pledged if necessary (7 per cent). It is noticeable that reasons reflecting pull factors were generally much more important than push factors, i.e., it is preference for how pawnbroking loans are delivered rather than lack of alternatives.

Table 15: Reasons for using a pawnbroker (%)

Convenience	45
Speed	39
Simplicity of how it works	37
The loan is in cash	25
Value for money	21
No other options to borrow money	18
There is a pawnbroker nearby	15
No credit checks	12
I could go without the item(s) pledged if necessary	7

Sample size (n) is 1,666 survey respondents. People could give more than one reason in their answer.

With the exception of speed, the reasons people gave did not vary significantly by loan amount for the most recent pawnbroking loan they took out. Still, the differences for speed were comparatively small; at one end of the range, this was given as a reason by 35 per cent of those borrowing between £50 (35 per cent), rising to 44 per cent by those with a loan of £500 or more.

When the key push factors (of no other options and no credit checks) are combined into an indicator of limited access to credit, then 26 per cent of pawnbroking customers borrowed for reasons of credit constraint.

Several factors increased the odds of citing credit constraint as a reason for using pawnbroker:

- Previous use of pawnbroking.
- Borrowing from family and friends in the last 12 months (doubling the odds).
- Experienced a negative financial event in the last 12 months (of any type).
- Incurred debt collection charges in the last 12 months (threefold increase in odds).

These findings highlight the value of people's ability to secure a loan with a valuable when they really need it or have exhausted their limited, other options.

Table 16: The wider use of pawnbrokers (%)

When someone took their first pawnbroking loan out	In the last year	35
	Between one and two years ago	13
	Between two and three years ago	8
	Between two and five years ago	14
	Between five and 10 years ago	14
	Longer than 10 years ago	14
	Don't know/can't remember	2
Number of pawnbroking companies used in total	One	62
	Two	29
	Three	6
	More than three	3

Sample size (n) is 1,662 and 1,666 survey respondents, respectively.

When repeat customers of pawnbroking loans were asked how long they normally take to repay a pawnbroking loan, the largest group said this was around the six month mark (37 per cent), although a further 46 per cent said they generally took less than this. Only 2 per cent said they repaid the loan on average after one year. Three in 10 said they always renewed their loans, although a further 54 per cent said they sometimes did. Few (16 per cent) of previous customers said they never renewed their loans.

Table 17: Typical repayment and renewal behaviour among previous pawnbroking customers (%)

Time taken on average to repay loans	Less than a month	8
	Up to two months	8
	Up to three months	13
	Up to four months	9
	Up to five months	9
	Up to six months	37
	Up to seven months	11
	Up to 12 months	3
	More than a year	2
	Varies too much	1
	Tendency to renew loans	Never renew my loans
Sometimes renew my loans		54
Always renew my loans		30

Sample size (n) is 1,299 and 1,230 survey respondents, respectively

The renewal of loans was a relatively commonplace outcome. Of repeat customers, only 16 per cent had never renewed a loan. In respect of the most recent loans, one quarter had renewed, and most commonly because they were unable to afford to redeem. However, the majority felt it was important to have this option. In the following chapter we explore whether this impacts on perceptions of pawnbroking.

4. CUSTOMERS' EXPERIENCES & PERCEPTIONS OF PAWNBROKING

This chapter focusses on customers' satisfaction with their pawnbroking experiences, the advantages and disadvantages they see, and the likelihood of recommending pawnbroking to others who need to borrow money.

We have already seen that customers returning to pawnbroking value being able to renew their pledges when considering their choice to pledge items. This chapter explores customers' experiences and perceptions of pawnbroking in other ways.

CUSTOMER SATISFACTION WITH THE PAWNBROKING SERVICE

Customers were asked to rate how satisfied or dissatisfied they were overall with the service they received from the pawnbroker they used on the most recent occasion. Respondents could answer on a scale from 1 (very dissatisfied) to 5 (very satisfied). The vast majority of customers were satisfied (91 per cent, which we have taken to be a response of 4 or 5 on the scale), including three-quarters (76 per cent) who were very satisfied. Only 3 per cent said they were either very or fairly dissatisfied (a response of 1 or 2). All of these estimates held true when adjusted for potential bias in the sample profile.

Table 18: Satisfaction with the service received this time from pawnbroker (%)

1. Very dissatisfied	2
2.	1
3.	6
4.	15
5. Very satisfied	76

Sample size (n) is 1,658 survey respondents.

Overall, there were similar levels of satisfaction expressed from pawnbroking customers in the 2010 survey (95 per cent), however, only 54 per cent said they were very satisfied, with 41 per cent rating their satisfaction 4 out of 5.

In exploring the factors associated with dissatisfaction, the only difference was that borrowers who reported keeping up with bills well or reasonably well were more likely to be dissatisfied than those who were falling behind with all of them, all other things equal. Other demographic and socio-economic factors were not important, nor were the financial situations of borrowers or their reasons or circumstances for their initial loan.

The outcome of someone's most recent loan did influence dissatisfaction. Compared with people who redeemed their loans, their counterparts who instead renewed their loans were more likely to report being dissatisfied. There was no difference for those who forfeited their items. In additional analysis, the adjusted figures were 3 per cent for those redeeming or forfeiting and 8 per cent dissatisfied among those renewing.²⁸ This might indicate dissatisfaction with the renewals process specifically, or dissatisfaction more generally with having to renew the loan because they could not afford to redeem it while also not wanting to forfeit their pledge.

²⁸ Calculated in regression analysis to adjust for sample effects. Due to small numbers this analysis combined those who redeemed their loans or forfeited their items, reflecting that the initial analysis had shown no difference between these groups.

Conversely, if we look briefly at what predicted someone reporting being *very satisfied* with the service they received, factors which were important were:

- Being female.
- Taking out their latest pawnbroking loan recently (e.g. within the last six months).
- Using pawnbrokers about the same as before.
- Redeeming their most recent loan, rather than renewing or forfeiting the pledge.
- Not using other types of regulated credit.
- Keeping up with bills and other credit commitments well or reasonably well.
- Not being credit constrained when taking out the loan.

ADVANTAGES AND DISADVANTAGES OF PAWNBROKING

If survey respondents had used any other form of borrowing in the last 12 months, whether this was formal (regulated) or informal borrowing, they were asked to consider the one main advantage and disadvantage of using a pawnbroker as opposed to another form of credit.

The one main advantage that people cited tended to relate to the accessibility of pawnbroking loans: the process being quick and easy to understand (30 per cent), involving no credit checks (28 per cent) and lending to people with a poor credit history (17 per cent). Other answers which also related to access issues (does not affect credit file and not needing a bank account) were less commonly reported.

Table 19: Advantage of using a pawnbroker as opposed to other credit (%)

Quick and easy to understand the process	30
No credit checks	28
Lend to people with poor credit history	17
Staff are understanding	10
Reasonable cost	6
Does not affect credit file	5
Don't need a bank account	1
No late payment fees	1
Other	<1

Sample size (n) is 1,139 survey respondents who had used some other form of credit in the last 12 months and answered the question.

Notably, few people identified the cost of pawnbroking loans as being a significant factor (6 per cent, above), and this figure was robust to sample effects. This might indicate that the cost of the loan was less important to most borrowers

The propensity to give 'reasonable cost' as the main advantage was related to:

- Being male (strongly)
- Borrowing larger sums (less strongly, £200 compared with less than £50).

Other factors that increased likelihood were:

- Having borrowed their most recent loan within the last year.
- Reporting ‘always’ running out of money than ‘never’ running out.
- Falling behind with *some* bills rather than all.
- Having forfeited their loan compared with if they had renewed it.

It did not relate to any particular types of other borrowing they had used in the last 12 months. This suggests that, for a minority of people at least, a pawnbroking loan is the best cost option they feel they have for a loan.

On the other hand, only a minority of people (5 per cent) acknowledged the comparatively higher cost of using a pawnbroker when asked what the one main disadvantage of pawnbroking was; this figure is robust to sample effects. As we should expect, these were not generally the same people who identified it as the main advantage.

When explored further in regression analysis, cost was more likely to be seen as a disadvantage by:

- Those borrowing between £200 and £500 than those borrowing £50.
- New as opposed to previous customers.
- Those who most recently borrowed from a pawnbroker more than a year ago (perhaps these customers will be less likely to borrow from a pawnbroker again based on their experiences and perceptions).

Notably, they were no more or less likely to have been in financial difficulty or experiencing credit constraint, and it made no difference to this group whether or not they thought it important to have the option to renew their loan.

The disadvantage that most customers identified was the risk of forfeiting their items if they could not renew or redeem their pledge. This was identified by nearly three-quarters of customers who had borrowed in other ways (72 per cent). This resonates with earlier findings about the importance to many customers of being able to secure a loan on an item which they nonetheless intend to redeem. One in ten customers said that there were no disadvantages (10 per cent), and very few cited pawnbroking being ‘too quick and easy’ (3 per cent) or not understanding the process (1 per cent) as the main disadvantage.

Table 20: Disadvantage of using a pawnbroker as opposed to other credit (%)

Risk of losing goods if can't renew or redeem	72
High cost option	5
Too quick and easy	3
Don't like using a pawnbroker/embarrassed	3
Don't understand the process	1
Staff are not understanding	1
Other	1
There are no disadvantages	10
Don't know	4

Sample size (n) is 1,144 survey respondents who had used some other form of credit in the last 12 months and answered the question.

UNDERSTANDING HOW PAWNBROKING WORKS

When asked if, knowing what they know now, customers understood how pawnbroking worked before first using it, nearly eight in ten said that they did (79 per cent). A substantial minority (17 per cent) said that they did not. A further 4 per cent said that they were not sure and this may tend to indicate that they did not know, and perhaps weren't willing to say so.²⁹ These figures remained the same when the potential influence of sample effects were taken into account.

For the 17 per cent who said specifically that they had not understood how pawnbroking worked when they first used it, only those who were unbanked were more likely to say that they had not known, all other things equal. This may reflect a lower experience of dealing with financial products generally, or it may have reflected a 'push' towards using pawnbroking if they had not been able to borrow through mainstream sources, such as through a bank.

Even so, the influence of this factor was comparatively weak. This suggests that the reasons why some people felt they had not understood how pawnbroking worked initially is due to other factors that we cannot observe. For example, we know from the data that the reasons are not accounted for by age, prior experience of pawnbroking, or other recent borrowing experiences. Nor is it about financial hardship, which we might assume could have pressured customers into taking a loan without due consideration, or the outcome of their most recent loan.

Overall, this suggests that either the way that pawnbroking works is itself intuitive or easy to understand, or that the checks and explanations pawnbroking companies offer to new users work well to provide that understanding.

RECOMMENDING PAWNBROKING TO OTHERS

Customers were asked to say how likely they would be to recommend pawnbroking to family or friends who need to borrow money. Respondents could answer on a scale from 1 (not at all likely) to 5 (very likely). Nearly two-thirds of customers said they were very likely to do so (65 per cent) and a further 16 per cent suggested that they were fairly likely to (16 per cent, a response of 4 in the scale). Only 7 per cent indicated that they were unlikely to do so (based on response of 1 or 2). These estimates are robust to sample effects.

As we might expect, someone who said that high cost was the main disadvantage of pawnbroking or that they had not known how pawnbroking worked when they first used it was also more likely to say that they would not recommend pawnbroking to family and friends. Based on the small numbers of customers reporting these, 19 per cent were highly or very likely and 12 per cent were unlikely to recommend pawnbroking to a friend, respectively. The likelihood of recommendation was lower if someone was dissatisfied with

²⁹ The online and anonymous nature of the survey should have reduced this effect, known as social desirability bias, however.

the service they had received in relation to their most recent loan; from an average of 7 per cent who would not recommend, the figure increased to 60 per cent among those dissatisfied.

Table 21: Likelihood of recommending Pawnbroking to Friends (%)

1. Not at all likely	4
2.	3
3.	12
4.	16
5. Very likely	65

Sample size (n) is 1,669 survey respondents.

Even when taking these influences into account, customers were unlikely to recommend pawnbroking if credit constraint was a factor when they first borrowed, and if they ‘never’ ran out of money than if they ‘hardly ever’ did so (there were no other differences between the responses at running out of money). People’s demographic and socio-economic characteristics were not generally important.

Other factors associated with the propensity to hold back on recommendations included:

- ‘Always’ running out of money.
- ‘Never’ running out of money.
- Moderate difficulty keeping up with bills.
- Credit constraint.
- Previous pawnbroking customers loans.
- Those who had renewed their most recent loan.

Conversely, those who were very likely to recommend pawnbroking to friends and family who might need to borrow money were more likely, all other things equal, to be:

- Women.
- Living in social or private rented accommodation.
- Unbanked and using other regulated types of credit.
- To have either redeemed or renewed their most recent loan (than forfeited their pledge).

Overall, the vast majority of customers reported they were satisfied with the service from the pawnbroker they used – over nine out of ten customers. However, those who had renewed their loans were more likely to be dissatisfied than those who had either redeemed their loan or had forfeited it, although dissatisfaction was still at a low level among this group, and most would still recommend pawnbroking to friends and family.

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