

PAWNBROKING CUSTOMERS IN 2010: A SURVEY

A REPORT TO THE NATIONAL PAWNBROKERS ASSOCIATION

SHARON COLLARD AND DAVID HAYES

**PERSONAL FINANCE RESEARCH CENTRE
UNIVERSITY OF BRISTOL**

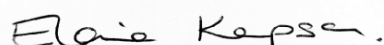
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Foreword

Pawnbroking has been a feature of the UK credit market for well over a century. It is somewhat surprising therefore that it has been the focus of so little social research. This independent quantitative survey of pawnbroking customers in the UK serves an important function: to empirically confirm what has, until now, been largely anecdotal evidence about the types of people who use pawnbrokers and their views and experiences of doing so. As such, it is a valuable and timely addition to the existing body of evidence around credit use in low-income households.

Perhaps most importantly, the survey findings help shed light on the context in which people on low incomes make decisions about their credit use. A decision that may appear irrational to an economist may nonetheless be perfectly sensible to someone living on a tight budget, who needs money to buy essentials and has few viable options to raise it. Most pawnbroking customers are aware of the amount of money they have to pay to redeem their goods, even if they cannot recall the APR. And while cost is undoubtedly a source of dissatisfaction for some customers, this is often outweighed by other factors such as quick and easy access to small cash loans, convenience and good customer service.

It is vital that we have a clear understanding of the financial needs of people on low incomes, in particular the reasons why they borrow money and why they use the sources of credit that they do. Only then is it possible to ensure an appropriate balance between consumer protection on the one hand, and access to consumer credit on the other. I hope the findings from this survey will help foster that understanding. All of us – researchers, policymakers, campaigners and the credit industry – need to be alert to the possible detrimental impacts of policy and legislative change on low-income consumers, who may suffer disproportionately as a result.



Emeritus Professor Elaine Kempson CBE
University of Bristol

About the National Pawnbrokers Association

The National Pawnbrokers Association (NPA) was established in 1892. It seeks to promote and maintain high standards of business conduct and professional competence among its members, which number in excess of 900 outlets.

NPA's elected National Council formulates policies to develop the pawnbroking industry. It represents its members' interests and views and works closely with bodies including the Office of Fair Trading, the Department for Business, Innovation and Skills and the Financial Ombudsman Service.

www.thenpa.com

About the authors

Sharon Collard is Senior Research Fellow and Director of the Personal Finance Research Centre (PFRC), at the University of Bristol. Sharon co-authored (with Professor Elaine Kempson) the earlier qualitative research report on pawnbroking commissioned by the NPA. David Hayes is Research Assistant at PFRC who specialises in quantitative research methods.

The Personal Finance Research Centre is an independent research centre that specialises in social research across all areas of personal finance, mainly from the consumer's perspective. PFRC combines extensive empirical research skills with a detailed understanding of a range of social policy issues. Its work has been influential in shaping public policy, and its research team provides technical and policy advice to government departments and others.

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Summary

The National Pawnbrokers Association commissioned this research against a backdrop of significant change in the UK credit market. While earlier research used qualitative in-depth interviews to find out about the views and experiences of pawnbroking customers (Collard and Kempson, 2003), this is the first independent quantitative survey of pawnbroking customers carried out in the UK. The survey was not intended to be representative of all pawnbroking customers. It does, however, give us a unique insight into the views and experiences of a group of 500 customers from a range of companies. Management information relating to around 5,500 customers was also analysed. This summary draws together the key findings from the research.

Customer profile

The customers we surveyed were mainly women (64 per cent); the average age of customers was 39 (section 3.1). A half of customers (46 per cent) lived in families with dependent children (section 3.1.1).

Customers typically had low incomes (less than £300 per week), and a half (53 per cent) lived in households where no-one worked (section 3.2). Reflecting these circumstances, the most commonly cited reasons for using a pawnbroker were to pay for day-to-day living expenses or household bills (section 4.5.2). Levels of home-ownership were low and nearly half of customers (45 per cent) rented their home from a local authority or housing association (section 3.1.2).

Use of financial services

The majority of customers (78 per cent) had a transactional bank account, although basic bank account holding was much more prevalent among pawnbroking customers than in the general population (40 per cent compared with five per cent of UK adults). Customers were also much more likely than the general population to have a Post Office Card Account (20 per cent of customers, compared with five per cent of UK adults) (section 3.3).

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While customers generally had other options for borrowing money (besides a pawnbroker), these tended to be fairly limited (section 4.2). Most customers (73 per cent) had used some other source of borrowing in the past 12 months, with borrowing from friends and family the most often mentioned. Far fewer customers had used commercial credit sources in the past 12 months, the most common being overdrafts, home credit, payday loans and credit or store cards (section 3.4).

Money management

On the whole, the pawnbroking customers who took part in the survey were careful money managers. Six in ten (59 per cent) had money left over at the end of the week or month at least sometimes. Most said they managed to keep up-to-date with payments on their household bills and other commitments (section 3.5).

A significant minority of customers clearly struggled to stay afloat financially, however. They tended to live in workless households and have the lowest household incomes. They were more likely to have defaulted on household bills in the past 12 months (typically utilities, rent or mortgage), and to feel that they had generally borrowed more than they could afford (sections 3.5 and 3.4.1).

Using a pawnbroker

The main reasons for using one particular pawnbroker over another were the convenient location of the outlet or a personal recommendation from a friend or family member who had used the same company (section 4.1). There was not much evidence that customers compared different companies, and most (71 per cent) had never used any other pawnbroker (section 4.4).

While they were aware of other services offered by the pawnbroker they used, most customers used a pawnbroker simply to obtain cash loans (section 4.3). The average amount borrowed from a pawnbroker was £90 (section 4.5.1). The most commonly pledged items mentioned by customers in the survey were rings, assorted gold items, necklaces and bracelets (section 4.5).

The majority of customers (74 per cent) were aware of the cost of borrowing from a pawnbroker. Although they were not often able to say what the APR was on their most recent loan, they were nonetheless able to say (within a banded amount) how much in total

they would have to pay to redeem their pledge. Even so, that left three in ten customers who did not know what the APR or the total cost of borrowing was (section 4.5.3).

The management information indicated that 56 per cent of pledges with an end-date of 30 November 2009 were redeemed; including some that had previously been renewed. The average period between the date of agreement and the date of redemption was around four months. Around three in ten pledges (28 per cent) were renewed, and a similar number (28 per cent) were forfeited (section 2.4.2). Factors that helped explain the outcome of loans included age, whether or not someone was a new customer, loan amount and household income (section 4.6).

Customer satisfaction

The vast majority of customers we surveyed (95 per cent) were satisfied with the service they received from the pawnbroker they used. Eight in ten customers would use the same company again. Customer service, the speed of the loan decision and convenient location were the things that customers expressed most satisfaction about (section 5.1).

The cost of borrowing from a pawnbroker was the main thing that customers were least satisfied with (mentioned by 27 per cent of customers) (section 5.1). And cost was regarded as one of the main disadvantages of using a pawnbroker as well (along with the risk of losing pawned items). Even so, when asked their views about the costs of borrowing from a pawnbroker, on the whole customers regarded the charges as reasonable and quite often felt that other types of lenders might not be any cheaper (section 5.3).

1 Introduction

Various elements of the UK consumer credit market have been the subject of government scrutiny in recent years. A lengthy Competition Commission Inquiry into the home credit market published its final report and recommendations in 2006. More recently, in 2010, the Office of Fair Trading published the findings of its review of high-cost consumer credit. The credit and store card markets were the subject of a review conducted by the Department for Business, Innovation and Skills, and the Conservative-Liberal Democrat Coalition government plans to review consumer credit and insolvency in 2010/11.

There have also been significant legislative changes, most notably the implementation of the Consumer Credit Act 2006, which considerably amended the Consumer Credit Act 1974 with the aim of establishing a fairer, clearer and more competitive consumer credit market. In addition, the European Consumer Credit Directive was implemented into UK law in March 2010. The Directive aims to harmonise key elements of consumer credit law within Europe, and heralds more changes in the form of new provisions and amendments to existing UK legislation.

Against this backdrop, the National Pawnbrokers Association (NPA) commissioned the Personal Finance Research Centre at the University of Bristol to conduct this independent quantitative survey of pawnbroking customers in the UK.

1.1 Pawnbroking in the UK

Pawnbroking has a long history in the UK and although usage has declined significantly since the mid-twentieth century, public awareness of pawnbrokers remains high today. Recent research found that fewer than one in ten people in 2009 had never heard of pawnbroking. In contrast, 25 per cent had never heard of a credit union and a similar proportion (27 per cent) had no prior knowledge of payday lenders (OFT, 2009).

Despite high public awareness, comparatively few UK consumers use a pawnbroker, and those that borrow in this way tend to live on low incomes. Research has consistently shown that less than one per cent of the adult population use a pawnbroker (Kempson and Whyley, 1999; OFT, 2009). This rises to around two per cent of people on low incomes (GfK, 2007).

Other commercial sources of credit used more commonly by people on low incomes include agency mail order catalogues and home credit.

For low-income consumers who have items of value (typically jewellery) to pledge, pawnbroking offers 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 is relatively high (with average APRs in the region of 70-200% for a £100 loan over six months), it may nonetheless offer better value than the other options open to someone with a low or modest income (Collard and Kempson, 2003).

1.2 Research aims

The aim of the research was to provide a snapshot of the pawnbroking industry in 2010, from the perspective of customers. In particular, the NPA wanted to gain insight into the customers of its members, and to learn more about their use of and attitudes to pawnbroking and other consumer credit.

The main topics covered in the survey were:

- Key characteristics of customers and their households
- Customer views and experiences of borrowing from a pawnbroker
- Customer views and experiences of using other consumer credit
- Customer ownership and use of bank accounts.

1.3 Research methods

The main element of this research was a telephone survey of 500 pawnbroking customers, conducted in May-June 2010. The customers were drawn from six pawnbroking companies, all of which are NPA members. The survey questionnaire focused primarily on people's views and experiences of using that particular company.

The companies varied in size and included some with fewer than 50 shops, and others with more than 100 shops. We also analysed loan-level management information relating to around 5,500 customers, provided by seven pawnbroking companies.¹

Further details of the research methods are included in the Appendix.

¹ These were the six companies from which customers were drawn for the telephone survey, plus a seventh company which provided management information but no customer telephone numbers.

1.4 This report

We provide a short overview of pawnbroking in Chapter 2. The remaining chapters outline the main findings from the quantitative survey of pawnbroking customers, drawing on the management information where appropriate.

Chapter 3 describes in detail the types of people who use pawnbrokers, including their socio-demographic characteristics, economic circumstances and use of other financial services. Chapter 4 explores when and how customers in the survey first came into contact with the pawnbroker they used, their reasons for using that particular company and any experience of using other pawnbrokers. In Chapter 5, 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.

In reading the report, it is important to emphasise that the survey was not intended to be representative of all pawnbroking customers. Even so, it provides a unique quantitative snapshot into the views and experiences of a group of customers drawn from a range of companies.

2 An overview of pawnbroking

This chapter provides a high-level description of pawnbroking in the UK. It looks at the structure of the pawnbroking industry in 2010, how the industry is regulated and the work of the industry's trade body, the National Pawnbrokers Association. It finishes with an aggregate picture of pawnbroking, focusing on loan amounts and loan outcomes.

What is pawnbroking?

- A pawnbroker provides cash loans secured by a pledged item, typically jewellery. Because the loan is secured, pawnbrokers do not carry out any credit checks.
- The loan agreement is usually (and as a minimum always) for a period of six months. Pawnbrokers typically charge interest per calendar month from the start of a loan
- The customer is entitled to redeem their property at any time during the contract period, by repaying the original loan plus the monthly interest due.
- If the loan is not repaid during this time and was over £100, the customer receives notice that the property is due to be sold. At this point, the customer has a further statutory period of 14 days in which to redeem the property.
- Customers normally have the option at the end of the contract to renew the loan by the payment of interest only and the rewriting of a fresh agreement.
- If a customer does not redeem the property or renew the agreement, the pawnbroker can sell the property to recoup the amount owed.

2.1 The UK pawnbroking industry in 2010

Since the Consumer Credit Act 1974, consumer credit licence statistics have not identified pawnbroking separately from other types of lending. As a consequence, there are no accurate figures for the number of licensed pawnbroking outlets. Best estimates, however, put the figure at around 1,300 outlets. This compares with around 800 outlets in 2003.

Until relatively recently, pawnbroking in the UK was mainly a local service run by small neighbourhood firms, with a few large national companies. There has been a structural

change in the industry over the past few years, however, with the large chains growing at the expense of the smaller independents. There are now seven large companies which account for about 75 per cent of all shops, with the remaining 25 per cent being small independents. NPA members include the old established firms of pawnbrokers and all of the large chains.

Over the past ten years or so, pawnbrokers have diversified into other financial services including cheque cashing and payday loans. This is reflected in the turnover of NPA members, with an average of only 43 per cent of turnover derived from pawnbroking (Collard and Kempson, 2003). At the same time, it is fairly common for companies specialising in cheque cashing, payday lending and rental purchase to also offer pawnbroking. It is estimated that the total loan book value for pawnbroking is in the region of £192 million.

2.2 Regulation of pawnbroking

Pawnbroking is a regulated financial service, dating back to the Pawnbroking Act 1872. This was superseded by the Consumer Credit Act 1974, which was only implemented for pawnbroking in 1985.

Businesses offering pawnbroking therefore need to understand and apply the provisions of the Act and the regulations made under it. There are a number of regulations specific to pawnbroking, which cover pawn-receipts, realisation of pawn, loss of pawn-receipts and pawn records. Pawnbrokers are also subject to the Unfair Contract Terms Act 1974, the Unfair Terms in Consumer Contract Regulations 1999 and the Irresponsible Lending Guidance published by the Office of Fair Trading in 2009.

The Consumer Credit Act 2006 significantly reformed the 1974 Act. In particular, it introduced an unfair relationships test to replace the extortionate credit bargains provisions which provided little practical consumer protection. The consumer credit licensing system was also reformed under the 2006 Act, and the jurisdiction of the Financial Ombudsman Service extended to allow consumers to refer complaints about licensed creditors.

The European Commission's Consumer Credit Directive, implemented in UK law in 2010, imposes new requirements on lenders and intermediaries as well as amending some existing requirements. The Directive has significant implications for the way in which pawnbrokers and other licensed lenders operate. Some of the key changes include:

- Major changes to credit agreements, including a prescribed format for pre-contractual information that lenders must not deviate from.

- A 14-day right of withdrawal for all credit agreements that fall within the scope of the Directive.
- The right to make partial early repayment at any time.

2.3 The National Pawnbrokers Association

Established in 1892, the National Pawnbrokers Association is a trade association that represents its members' interests. The NPA recently introduced a Code of Practice and its members are requested to self-certificate on an annual basis. The NPA also produces *The Pawnbroker's Guide* for its members, which is a comprehensive manual and reference guide to all aspects of pawnbroking. And, while the NPA does not monitor its members, any customer complaints are referred by members to the NPA for resolution.

Membership of the NPA has grown significantly in recent years. In 2007, membership of the NPA was 530 outlets. By 2010, membership had nearly doubled to 1,080 outlets, or 83 per cent of all pawnbrokers.

2.4 An aggregate picture of pawnbroking

This section draws on the management information to give a high-level picture of loan amounts and loan outcomes. The data was provided by seven pawnbroking companies, and comprises pawn agreements with an end-date of 30 November 2009. The data relates to around 5,500 customers, the vast majority of whom (91 per cent) only had one loan.

2.4.1 Loan amounts

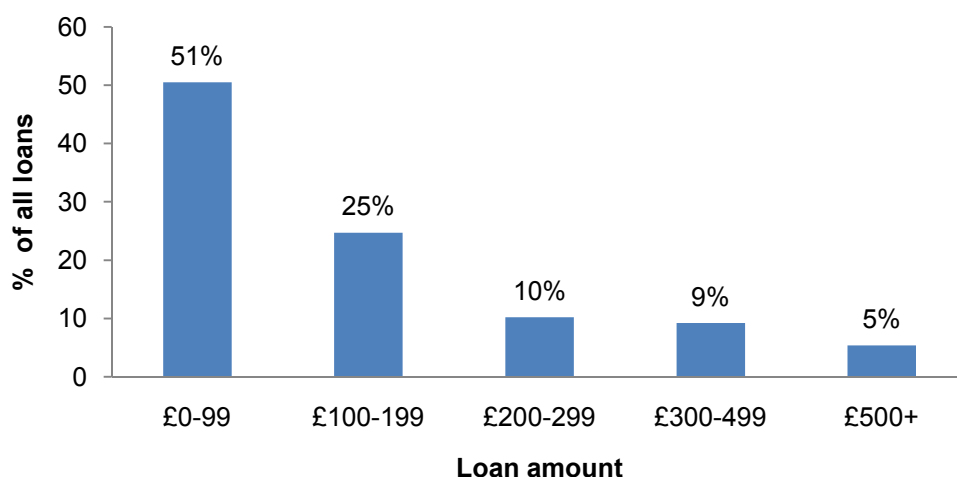
On the whole, customers use a pawnbroker to borrow relatively small sums of money. Across all loans included in the management information, the average (mean) loan amount was £157. The median average loan amount was £90.² The amount borrowed varied by the age of the customer, so that the median loan amount for customers under 20 years of age was just £60. The equivalent figure for customers in their 40s was £100. Other socio-demographic characteristics (such as gender) were not strongly related to the loan amount.

² The mean is the average value, calculated by adding all of the observations (loan amounts) and dividing by the number of observations. The median is the 'middle' value. Medians are used when there is a possibility the data could be skewed, which is often the case with financial data: whereas a few large numbers (loan amounts) could affect a mean, they won't affect a median.

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Figure 2.1 indicates that around half of all loans taken out were for less than £100. Very few loans were for £500 or more. By way of comparison, home credit loans tend to be in the region of £300 to £500.

Figure 2.1 Loan amount



Source: Customer management information

2.4.2 Loan outcomes

The standard repayment period for a loan from a pawnbroker is six months. At the end of this time (earlier if the customer wishes), the customer can redeem the property they have pledged by repaying the loan and the interest due. Alternatively, the contract can be renewed by mutual consent for a further six months. If a customer does not redeem or renew an agreement at the end of the six month loan period, the pawnbroker is entitled to use the property to recoup the loan, the interest and any associated costs. In this situation, the customer is said to have forfeited their property.

The management information indicates that nearly six in ten pledges (56 per cent) with an end date of 30 November 2009 were redeemed, including some that had previously been renewed. The average period between the date of agreement and the date of redemption was 118 days (in other words, around 17 weeks or four months). Of the remaining pledges, around three in ten (28 per cent) had been renewed, and the same proportion (28 per cent) had been forfeited.

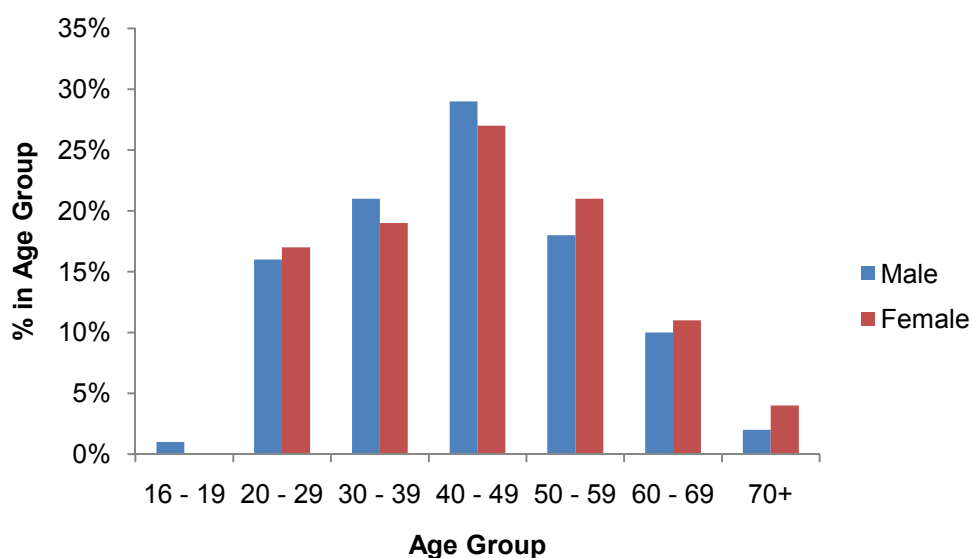
3 A profile of pawnbroking customers

This chapter mainly draws on the information from the customer survey to look at the profile of pawnbroking customers. It takes into account socio-demographic characteristics, the economic circumstances of the household, use of banking services and other credit and customers' approaches to money management.

3.1 Personal characteristics

Pawnbroking customers tend to be women with families, so it was not surprising that women made up two-thirds of the customers that we surveyed (64 per cent). The management information indicated that the average age of a pawnbroking customer was 39. Three-quarters of the customers we surveyed (76 per cent) were aged between 20 and 49, a period when the financial pressures of setting up home and raising a family are likely to be high. Indeed, credit users generally are drawn disproportionately from this age group (Kempson, 2002).

Figure 3.1 Age and gender of customers



Source: Customer survey. Unweighted base: 502.

Although the majority of respondents were white (75 per cent), nearly two in ten described themselves as Black or Asian (19 per cent).

3.1.1 Household composition

In terms of household composition, almost half of the customers we surveyed (46 per cent) lived in a family with dependent children. They included rather more couple families than single parent families (26 per cent compared with 20 per cent respectively). Two in ten customers (20 per cent) were single people who lived alone. There were a similar proportion of couples with no dependent children (18 per cent). The remaining customers (17 per cent) had some other living arrangement, mainly comprising multiple-adult households.

3.1.2 Housing tenure

Only a minority of the customers we surveyed (20 per cent) owned their own home, either with a mortgage (16 per cent) or outright (four per cent). The largest single group of customers (48 per cent) lived in accommodation that was rented from a local authority or housing association. Private renters accounted for 22 per cent of customers, while six per cent lived with their parents. The remainder had some other arrangement.

3.2 Economic circumstances of the household

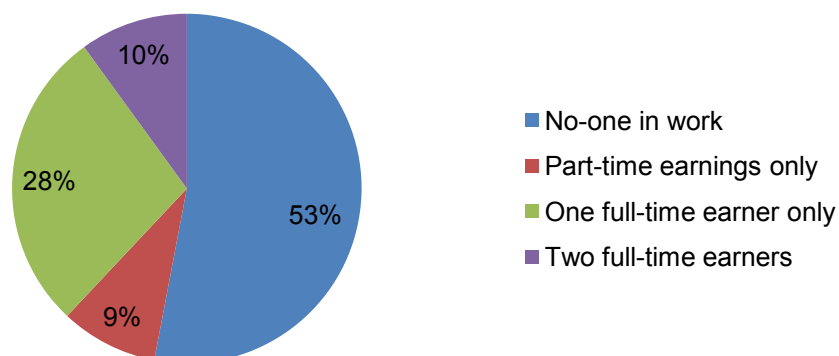
For the most part, the pawnbroking customers we surveyed tended to live in households with relatively low incomes.

Only four in ten (40 per cent) of surveyed customers were in work, with rather more working full-time (27 per cent) than part-time (13 per cent). The remaining six in ten customers surveyed were not in employment:

- 25 per cent were unemployed and looking for work
- 14 per cent looked after the home or cared for family
- The same proportion (14 per cent) were unable to work because of ill-health or disability
- A small proportion of customers (six per cent) were fully retired.

Figure 3.2 provides a picture of employment status at a household (rather than individual level). This indicates that over half of customers (53 per cent) lived in a household with no-one in work. Most of these households in fact comprised single parents or single adults living alone. In cases where there was at least one full-time earner, these tended to be couple households.

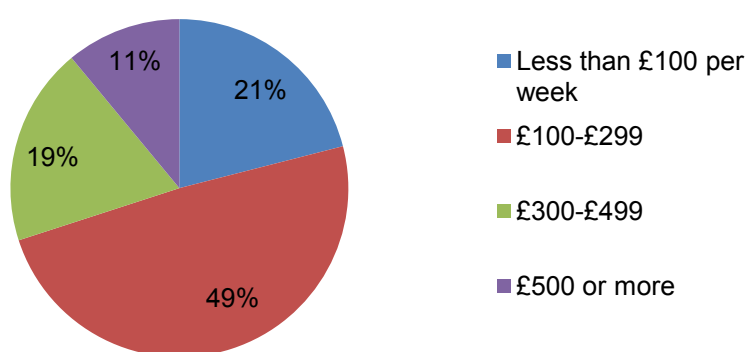
Figure 3.2 Household employment status of customers



Source: Customer survey. Unweighted base: 465 (excludes refused/don't know answers)

Customers who took part in the survey were asked for their household income, including take-home pay, pensions or social security benefits, tax credits and any other income. As we might expect, household income reflected their employment status, so that seven in ten customers (70 per cent) reported household incomes of less than £300 per week (Figure 3.3). By way of comparison, the median income for a couple with no children in the UK is £407 per week (before housing costs).³

Figure 3.3 Weekly household income of customers



Source: Customer survey. Unweighted base: 404 (excludes refused/don't know answers)

³ http://statistics.dwp.gov.uk/asd/hbai/hbai_2009/pdf_files/first_release_0809.pdf.

3.3 Use of banking services

People on low incomes are at a particular risk of being excluded from transactional banking (in the form of a current or basic bank account). It was not surprising, therefore, that the customers we surveyed were somewhat less likely to have a current or basic bank account than the general population, and rather more likely to have a Post Office Card Account (an electronic card for receipt of state pensions and benefits).

In total, two in ten customers (20 per cent) had a Post Office Card Account (POCA). This compares with a UK average of five per cent (National Statistics/DWP, 2010). Although there were no significant variations by age or gender, people not in employment had almost four times the likelihood of having a POCA as employed respondents (30 per cent compared with eight per cent respectively).

Overall, nearly eight in ten customers we surveyed (78 per cent) had a current account or basic bank account. They were divided about evenly into those who said they had a current account (38 per cent) and those that said they had a basic bank account (40 per cent). Most basic bank account holders had an account with a debit card. By way of comparison, 89 per cent of UK adults have a current account, and only five per cent have a basic bank account (National Statistics/DWP, 2010). As we might expect, customers in work were far more likely to have a bank account than those not in work.

Bringing the findings on POCAs and bank accounts together, we see that:

- Seven in ten customers (69 per cent) only had a bank account
- One in ten (10 per cent) only had a POCA
- One in ten (10 per cent) had both a POCA and a bank account, and
- A similar proportion (11 per cent) reported that they had neither a POCA nor a bank account.

Among those customers with a bank account, a third (34 per cent) had an overdraft facility (equivalent to 26 per cent of customers overall). Given the limited facilities provided with a basic bank account, it was not surprising that current account holders were much more likely to report having an overdraft facility than those with a basic bank account (48 per cent compared with 20 per cent respectively). More than two in ten customers with a bank account (24 per cent) reported that they were currently overdrawn. Encouragingly, only a few customers said they were overdrawn without having an agreed overdraft facility.

3.4 Other Credit Use

Customers who took part in the survey were asked about their other credit use (besides using a pawnbroker) in the past 12 months. In total, 73 per cent said they had borrowed money in some other way, and these customers had used an average of two different types of credit each.⁴ The remaining 27 per cent reported not having borrowed from another source in the past 12 months.

As Table 3.1 indicates, the most commonly reported source of borrowing by far was from a friend or family member (36 per cent of customers). The other sources of borrowing most often mentioned were from commercial lenders: two in ten customers (19 per cent) had used an overdraft, and similar numbers had taken out one or more loans from a home credit company (16 per cent) or used a payday lender (16 per cent).

At the other end of the spectrum, very few customers had borrowed from a credit union or a finance company in the past 12 months, and only one customer had borrowed money from an unlicensed lender.

There were some links between the types of credit used and the income and gender of customers. Use of home credit and borrowing from friends or family were particularly common among customers on lower incomes (less than £300 per week). These customers were less likely than those who were better off to use a payday lender. Women were more likely to have used home credit, while men were more likely to have used a payday lender.

The customers we surveyed were also asked whether they currently had a credit or store card. Rather more customers said they currently had a credit or store card than reported using a card in the past 12 months (20 per cent compared with 14 per cent respectively). Better-off customers were far more likely than those on lower incomes to be card holders and users.

⁴ Customers may of course have had more than one account of each credit type, e.g. more than one home credit loan, or more than one credit card.

Table 3.1 Other credit used in past 12 months

Other Credit Use in past 12 months	% of respondents
None	27
Borrowed from a friend or relative	36
Borrowed on an overdraft	19
Loan from home credit company	16
Payday loan	16
Credit card/store card	14
Bought goods in instalments from mail order catalogue	12
Loan from social fund	11
Bought goods on hire purchase	9
Loan from bank/building society	7
Loan from credit union or similar lender	4
Loan from finance company	3
Loan from unlicensed lender	0
Don't Know/Refused	2

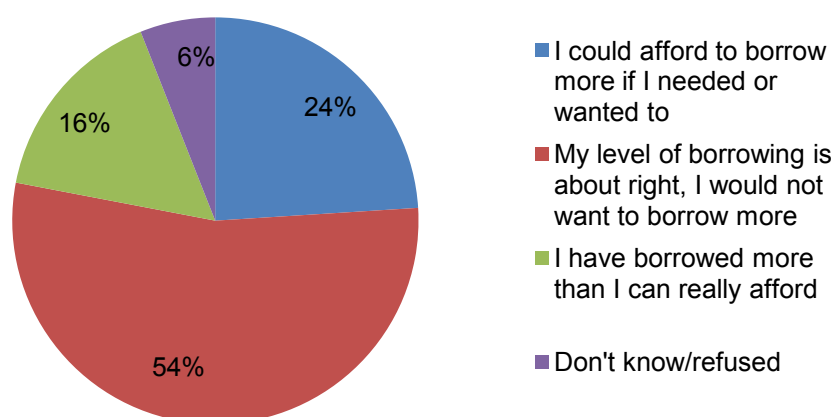
Source: Customer Survey. Unweighted base: 502.

Percentages do not add to 100, as customers may have used more than one type of credit

3.4.1 Views about levels of borrowing

The customers we surveyed were generally comfortable with their current overall level of borrowing (i.e. including any loans from a pawnbroker and other borrowing they might have). As Figure 3.4 shows, over half felt their level of borrowing was about right and would not want to borrow any more. A further quarter (24 per cent) felt that they could borrow more if they needed or wanted to. Two in ten customers felt they had borrowed more than they could really afford, and this was more commonly expressed by customers on lower incomes.

Figure 3.4 Views about levels of borrowing



Source: Customer survey. Unweighted base: 502.

Again, there were interesting income and gender differences in terms of customers' views about borrowing. When broken down by age, around seven in ten people in their 60s felt their level of borrowing was appropriate, compared to five in ten of customers in their 20s. Women were also more likely than men to say their level of borrowing was about right. Nearly twice as many men (34 per cent) than women (18 per cent) thought they could borrow more if they needed or wanted to.

3.5 Money management

We asked customers in the survey a range of questions to ascertain how well they were able to make ends meet on a day-to-day basis. These included: whether or not customers had money left over at the end of the week or month; how well they felt they were keeping up with their household bills and commitments; and whether or not they had fallen behind with any bills in the past 12 months.

Customers mainly divided into three groups in terms of whether or not they had money left over at the end of the week or month:

- 33 per cent said they had money left over all or most of the time
- 29 per cent said they sometimes had money left over, and
- 36 per cent said they hardly ever or never had money left over.

As we might expect, whether customers had money left over was closely related to their financial situation, so that customers not in work and those on lower incomes were far more likely to say that they hardly ever or never had money spare at the end of the week or month. In addition, women were twice as likely (ten per cent) as men (five per cent) to report never having any money left over.

When asked for their subjective views about keeping up with bills and other commitments, two-thirds of customers (66 per cent) said they were able to keep up, but that it was a struggle either sometimes (50 per cent) or most of the time (16 per cent). Most of the rest (29 per cent) said they managed to keep up with their commitments without any difficulties. Only a small proportion (five per cent) admitted falling behind with bills or commitments. It was no surprise that these customers were the most likely to report having no money left over at the end of the week or month.

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Reflecting this overall picture, six in ten customers (60 per cent) reported that they had been able to pay all their bills in the past 12 months by the final reminder. Where customers had experienced difficulties, the most common bills that they had fallen behind with were:

- Gas/electricity bill (13 per cent of customers)
- Rent or mortgage (nine per cent)
- Water bill (nine per cent)
- Telephone (nine per cent).

Only one per cent of customers said they had defaulted on consumer credit repayments. In other words, customers were more likely to report falling into arrears with household bills than with credit commitments.

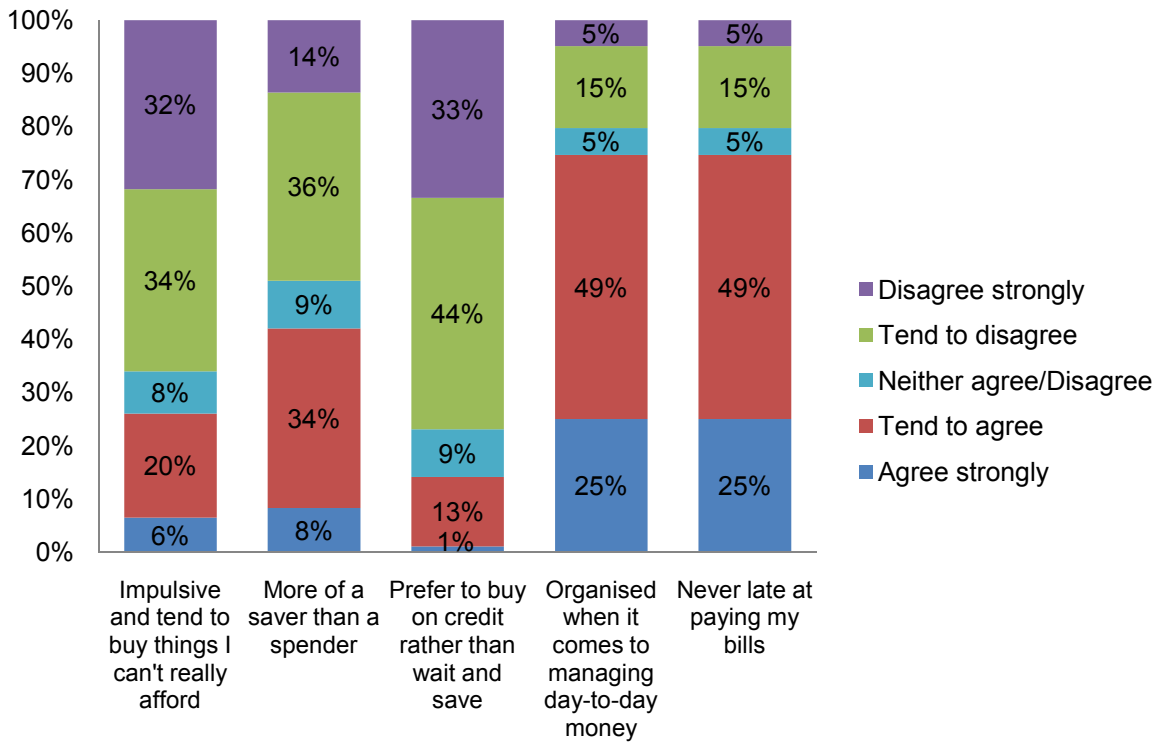
Two in ten customers (16 per cent) had been unable to pay two or more bills at the final reminder in the past 12 months, due to lack of money. Six in ten of these respondents were not in employment; while eight in ten of those unable to pay two or more bills at the final reminder were women.

3.5.1 Attitudes to money management

The customers we surveyed were asked how strongly they agreed or disagreed with a series of statements to do with managing money. Their responses largely reflected the overall picture from the survey, that on the whole they managed their modest incomes pretty well.

As we see in Figure 3.5, therefore, the majority of customers *disagreed* that they were impulsive and bought things they couldn't afford, or that they preferred to use credit to buy things straightaway. The majority *agreed* that they always paid their bills on time, and were organized when it came to managing day-to-day money. Customers were more equivocal about whether or not they were spenders than savers, with about roughly similar proportions agreeing and disagreeing.

Figure 3.5 Attitudes to money management



Source: Customer survey. Unweighted base: 502

4 Using a pawnbroker

This chapter describes when and how customers in the survey first came into contact with the pawnbroker they used, their reasons for using that particular company and any experience they had of other pawnbrokers. It then goes on to discuss the most recent loan from a pawnbroker that customers had taken out.

4.1 Initial contact

While the survey included some long-standing pawnbroking customers, almost two-thirds of the customers we spoke to (64 per cent) had first pledged valuables with the pawnbroker they used between 2005 and the time of the survey in May-June 2010. Most customers (81 per cent) had never used a pawnbroker before this occasion.

The majority of surveyed customers (59 per cent) had first become aware of the pawnbroker they used when they passed by the outlet on the street. A further three in ten customers (26 per cent) said they had originally been told about the pawnbroker they used by a friend or family member who was already a customer of the company. In contrast, advertising seemed to play only a minor role in attracting customers. Less than one in ten customers (six per cent) mentioned any form of advertising, which included TV or radio adverts or getting a leaflet through the door.

The reason given by customers for choosing one particular pawnbroker over any other largely reflected the ways in which they had first become aware of the company. Around half (53 per cent) said they had chosen the pawnbroker they used because of its convenient location. Two in ten (19 per cent) based their decision on a recommendation from a friend or relative. A further one in ten customers was simply not aware of any other pawnbroking companies.

On the whole, the customers we surveyed did not appear to make their choice of company on monetary grounds. Fewer than one in ten (eight per cent) mentioned that they had chosen a particular pawnbroker based on the loan amount they would receive for their pledge items. It was even less common for customers to say that their chosen pawnbroker was cheaper than another company.

4.2 Perceived options for borrowing

It is well-documented that people on low incomes in the UK generally have fairly limited options when it comes to borrowing money.

As we saw in Chapter 3, around three-quarters of surveyed customers had used some other form of borrowing (aside from pawnbroking) in the past 12 months. The survey also asked customers what they felt their options would be if they needed to raise £100 for something they wanted to buy sooner rather than later. The majority considered that they would have some means of raising this sum of money if necessary, but their choices were clearly limited.

Borrowing from a friend or family member was again the most common response (cited by 45 per cent of customers), followed by pledging valuables with a pawnbroker (39 per cent). All other forms of borrowing (from commercial lenders or the Social Fund) were mentioned as possible options by fewer than 10 per cent of customers. Perhaps not surprisingly given their modest incomes, relatively few people felt they would be able to save up or draw on savings.

4.3 Awareness and use of other services offered by pawnbrokers

Chapter 2 described how pawnbrokers have diversified into the provision of other financial services such as cheque cashing and payday loans. They traditionally retail new and second-hand jewellery as well.

The majority of customers we surveyed were aware of other services offered by the pawnbroker they used. The most often cited were:

- Cheque cashing (mentioned by 84 per cent of customers)
- Sale of jewellery (69 per cent)
- Payday loans (68 per cent)
- Gold buying service (64 per cent).

Only about a third of customers who were aware of other services said they actually used them, however, with cheque cashing and the retail sale of jewellery being the most popular. In other words, our surveyed customers predominantly used a pawnbroker to obtain cash loans.

4.4 Use of other pawnbroking companies

The survey data confirm anecdotal evidence from the industry, that customers feel a strong sense of loyalty to the pawnbroker they use, and do not tend to use any other company.

The majority of customers we surveyed (71 per cent) had never used any other pawnbroker. There may of course be a number of reasons for this apart from loyalty - as mentioned above, some customers were not aware of any pawnbroker other than the one they used. The remaining three in ten customers (29 per cent) had used another pawnbroker, but generally not in the past 12 months and even then only once or twice.

4.5 Most recent loan from a pawnbroker

The customers we surveyed were asked about the most recent loan they had taken out from the pawnbroker they used. The vast majority of customers (93 per cent) had pledged an item relatively recently, either in 2009 or 2010.

Most pawnbrokers who are members of the NPA deal only in jewellery. Among the surveyed customers, the most popular items that were pledged included:

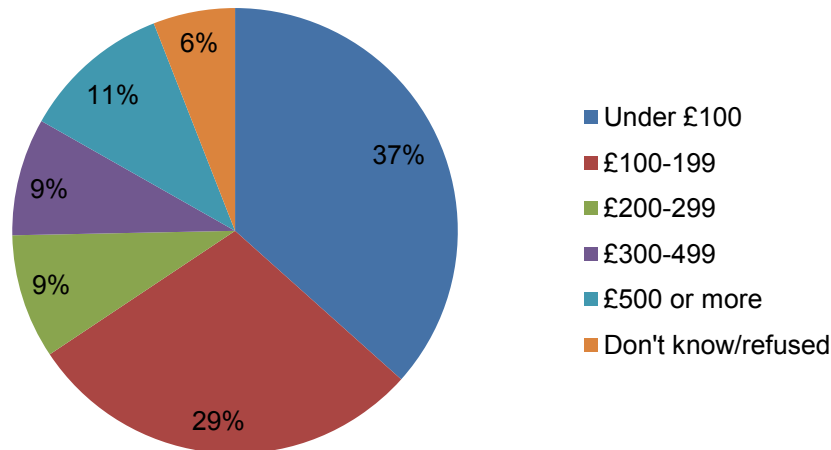
- Rings (40 per cent of customers)
- Assorted gold items (27 per cent)
- Necklaces (25 per cent), and
- Bracelets (23 per cent).⁵

4.5.1 Amounts borrowed

From the management information, we know that the median amount borrowed across all loans was £90. Among the customers we surveyed, two-thirds of them (66 per cent) had borrowed less than £200 on the most recent occasion when they used a pawnbroker; most of these had borrowed less than £100 (Figure 4.1).

⁵ Percentages do not add to 100 as customers could give more than one answer to this question.

Figure 4.1 Amount borrowed, most recent loan from a pawnbroker



Source: Customer survey. Unweighted base: 502

As we might expect, household income was related to the amount borrowed most recently. As a result, 48 per cent of lower income customers (with weekly household incomes under £100) had borrowed less than £100, compared with 26 per cent of higher income customers (with household incomes over £300 per week).

4.5.2 How the loan was used

The customers we surveyed had used their most recent loan from a pawnbroker in two main ways:

- To pay for day-to-day living expenses, such as food and groceries (mentioned by 51 per cent of customers), and
- To pay household bills other than rent or mortgage (mentioned by 27 per cent).⁶

This indicates that the relatively small amounts borrowed from a pawnbroker are very much used to finance essential household spending. Borrowing from a pawnbroker to fund discretionary spending was uncommon. For example, only five per cent of customers said they used their most recent loan to pay for a birthday or other special occasion, and even fewer (three per cent) wanted the money for socialising or going out.

⁶ Again, customers were able to give more than one response to this question.

4.5.3 Awareness of cost of borrowing

Pawnbrokers typically charge interest per calendar month from the start of a loan. Monthly interest rates across the industry in the UK generally range from around five to 12 per cent. For a loan of £100 over six months, this would mean an APR of between 70 and 200 per cent.

Pawnbrokers have long been required to show the APR of a loan on the loan agreement. The survey indicated low awareness among customers of the APR of their most recent loan, however, so that 88 per cent were unable to say what the APR was. In cases where customers were able to provide information about the APR, it tended to be 100 per cent or more. In contrast, only three in ten customers we surveyed were *not* able to estimate the total amount they would have to pay (including the amount borrowed and any interest charges) to redeem the items they had pledged.

Bringing this information together, we find that 74 per cent of customers overall were aware in some way of the cost of borrowing from a pawnbroker:

- Most customers (62 per cent) were able to say (within a banded amount) how much money they had to pay in total to redeem their most recent pledge, but could not say what the APR of their loan was.
- A minority of customers (nine per cent) knew both the APR and the total cost of redeeming their pledge. A further three per cent were able to give the APR but not the total amount they had to repay.

This leaves three in ten customers (26 per cent) who were unable to say at the time of the interview what the APR of their most recent loan was, or how much in total they would have to pay to redeem the items they had pledged. They may of course have had a record of this information that they could refer to if they wanted to.

We go on to discuss customers' views about charges in Chapter 5.

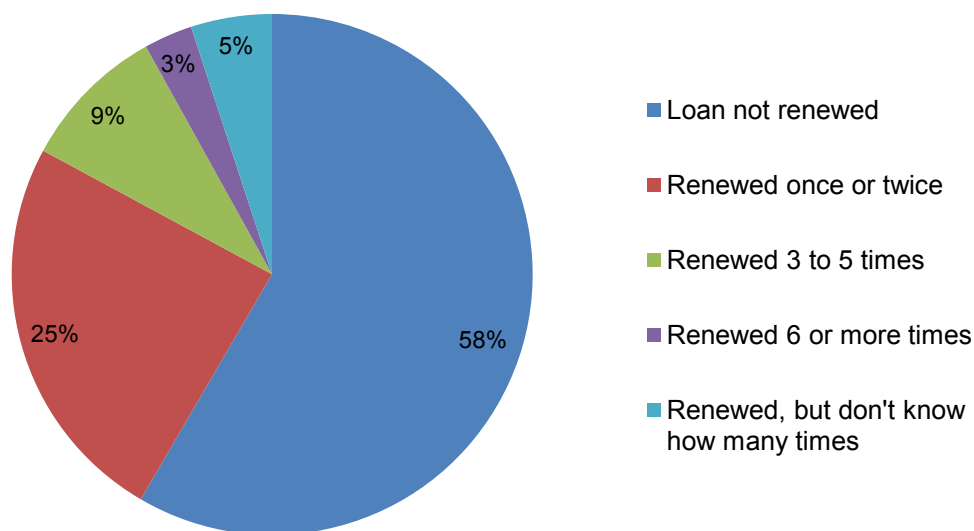
4.5.4 Outcome of most recent loan

Around three in ten of the customers we surveyed (26 per cent) had redeemed their most recent pledge. For most of the rest (61 per cent), the loan was still outstanding, with the intention that the pawned valuables would be redeemed. A small proportion of customers (12 per cent) had forfeited their valuables; half of the customers who had done so lived in households with no-one in work.

As noted in Chapter 2, at the end of a standard six month loan repayment period, customers can renew their loan contract for a further six months if they wish and the pawnbroker agrees. The customer is usually required to pay the accrued interest prior to renewal. Among the customers we surveyed, four in ten (42 per cent) had renewed their most recent loan, the other 58 per cent had not. Renewal was rather more common among women and customers living in workless households.

Most of these customers (61 per cent of those who renewed, 24 per cent of all customers) had renewed their loan once or twice. A further 19 per cent of those who renewed (equal to nine per cent of all customers) had done so between three and five times (Figure 4.2).

Figure 4.2 Had customers renewed their most recent loan?



Source: Customer survey. Unweighted base: 502

Taking these findings together, we see that:

- Three in ten customers (26 per cent) had redeemed their most recent pledge, most of them without having renewed their loan contract.
- Of the 61 per cent of customers who had not yet redeemed their most recent pledge, half had renewed their loan while the other half had not (presumably because they had not yet reached the end of their original contract).
- One in ten customers (12 per cent) had forfeited the valuables that they had pledged most recently. Relatively few of these customers had renewed their loan.

4.6 What factors explain loan outcome?

We used the customer management information (which comprised loans with a specific end-date) to explore in more detail the relationship between customer characteristics and the loan outcome e.g. whether the pledge was redeemed or the pawned valuables forfeited.

As we outline in the sections below, age, whether or not the customer was new to a company and loan amount were the three factors that stood out as key explanatory variables with regard to the loan outcome. The management information did not contain any information on the income or employment status of customers, so we were unable to explore this in relation to loan outcome. Customers' experiences with their most recent loan (section 4.5.4) indicate that income does play a role in determining the outcome of loans, however, with customers living in workless households more likely to renew loans and to forfeit the valuables they had pledged.

4.6.1 *Customer age*

Older customers were more likely to have redeemed their loans at the end of the loan agreement. As a result, we find that 62 per cent of customers over 60 redeemed their pledge, compared to an overall average of 54 per cent. In addition, there was a continuous relationship between age and the likelihood of renewing a loan agreement, with older people more likely to renew than their younger counterparts. This suggests that they were particularly keen to avoid losing the valuables they had pledged.

There was also a continuous relationship between age and forfeiting goods. As a result, 43 per cent customers aged under 20 had forfeited their valuables, compared to only 15 per cent of the over 70s. As we saw in Chapter 2, the under 20s tended to pawn items to borrow smaller-than-average amounts, which might help explain the higher level of forfeiting among this group.

4.6.2 *New or existing customer*

Existing customers were more likely than new customers to have redeemed their loans at the end of the loan agreement (57 per cent compared with 47 per cent respectively). Renewal was also more common among existing customers, so that 31 per cent of them had done so compared with 14 per cent of new customers.

In contrast, it was more common for new customers to have forfeited their pledges at the end of the loan agreement period (43 per cent, compared to 26 per cent of existing customers).

4.6.3 Loan amount

The management information showed that the original amount of the loan had some bearing on the loan's outcome (whether redeemed, renewed or forfeited). As a result, we found that:

- Higher value loans (between £300 and £500) were the most likely to be redeemed.
- The likelihood of a loan being renewed increased with the value of the loan.
- The smaller the loan amount, the more likely that the pawned valuables would be forfeited. As a result, a third of loans for less than £100 (32 per cent) were forfeited, more than any other loan amount.

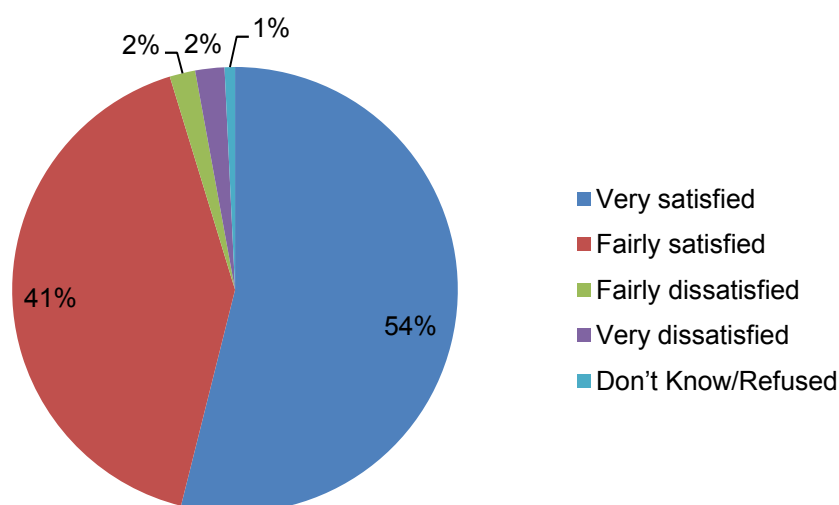
5 Customer views about using a pawnbroker

This chapter starts by examining the extent to which customers said they were satisfied or dissatisfied with the service they had received from the pawnbroker they used. It then explores customer perceptions of the main advantages and disadvantages of using a pawnbroker over other forms of credit.

5.1 Customer Satisfaction

Overwhelmingly, customers we surveyed reported being satisfied with the service they received from the pawnbroking company they used (95 per cent, Figure 5.1). Most (54 per cent) said that they were very satisfied, while only four per cent were dissatisfied.

Figure 5.1 Customer satisfaction with pawnbroking company



Source: Customer survey. Unweighted base: 502.

Women were more likely than men to be very satisfied. Indeed, further statistical analysis showed that women had two-and-a-half times the likelihood of reporting being very satisfied than men, all other things being equal.

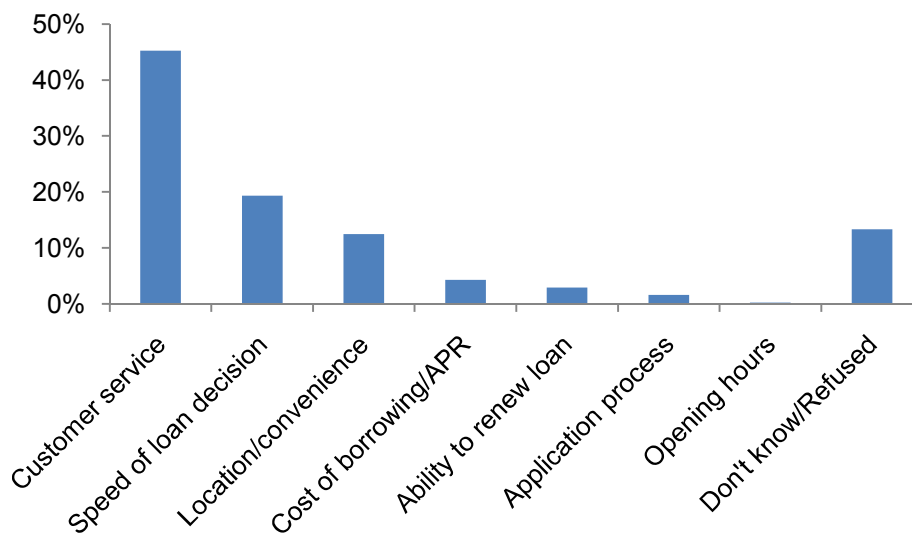
There were three factors that stood out when surveyed customers were asked what aspect of the service they were *most* satisfied with (Figure 5.2):

CUSTOMER VIEWS ABOUT USING A PAWNBROKER

- Customer service (mentioned by 45 per cent of customers)
- Speed of decision (19 per cent)
- Location/convenience (12 per cent).

There were differences in customers' views by gender and age. Women and older people were particularly likely to report high levels of satisfaction with the customer service they had received. Women (51 per cent) were more likely than men (35 per cent) to regard customer service as the aspect of the service they were most satisfied with. Older customers that were surveyed were much more likely to say that they were most satisfied with customer service than younger customers. For example, 62 per cent of people in their 50s gave customer service as the aspect of the service they were most satisfied with, compared to just 31 per cent of customers in their 20s. The speed of the loan decision was especially important to people in their 20s, with 28 per cent of this age group saying that this was the aspect of the service they were most satisfied with, compared to 19 per cent of all customers surveyed. Satisfaction with location/convenience of the service did not vary much when looked at by customer characteristics.

Figure 5.2 Aspect of service most satisfied with



Source: Customer survey. Unweighted base: 502.

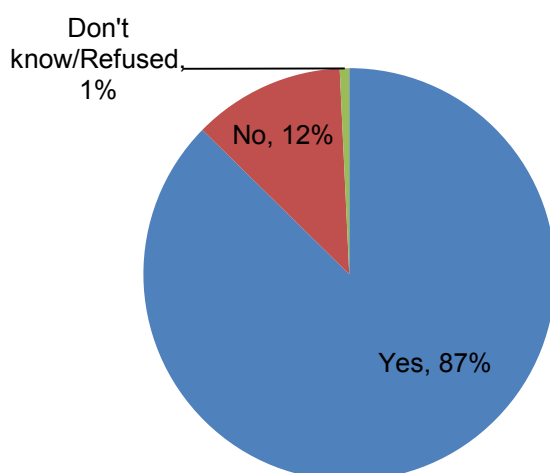
Other factors were nowhere near as important, although 14 per cent of surveyed customers replied that they didn't know or refused to answer (Figure 5.2).

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The aspect of the service that surveyed customers were *least* satisfied with was the cost of borrowing (mentioned by 27 per cent of customers). However, over six in ten of the customers who were surveyed (61 per cent) said that they didn't know what aspect they were least satisfied with. Again, this suggests that customers were extremely satisfied with the service that they received.

Another measure of satisfaction asked customers if they would pledge items with the same company again. Unsurprisingly, taking into account the very high levels of satisfaction, 87 per cent of surveyed customers said that they would do so (Figure 5.3). This is supported by the management information, where 84 per cent of customers said they had pledged goods to the same company previously.

Figure 5.3 Would customer pledge items with the same company again?



Source: Customer survey. Unweighted base: 502.

One in ten customers (12 per cent) reported that they would *not* use the same company again. Men were more likely than women to say that they would not do so (17 per cent compared to only nine per cent of women).

5.2 Advantages of using a pawnbroker

We asked customers in the survey for their views generally about the main advantages and disadvantages of using a pawnbroker to borrow money, as opposed to another form of credit. Not surprisingly, to a large extent these reflected the reasons why customers were satisfied or dissatisfied with the pawnbroker they used.

For customers, the main advantage (by a very long margin) was the fact that it was quick and easy to borrow money from a pawnbroker. Two-thirds of customers (66 per cent) mentioned this. Only small proportions of people mentioned any other factor - six per cent, for example, mentioned the fact that there were no credit checks as the main advantage. Around one in ten people (11 per cent) did not know what the main advantage might be for them.

The attraction of a quick and easy means of borrowing money was supported by customers' responses to a range of attitude statements, so that:

- Almost all customers surveyed (96 per cent) agreed that using a pawnbroker was a good way to raise cash quickly, and
- Three-quarters of customers (77 per cent) agreed it was quicker and easier to borrow from a pawnbroker than other types of lender.

The survey findings also provided some indication that customers felt pawnbrokers to be more understanding than other types of lender. Twice as many customers disagreed than agreed that other lenders were more sympathetic than pawnbrokers (39 per cent disagreed, compared with 21 per cent who agreed). Similar, more customers disagreed than agreed that other lenders understood their customers better than pawnbrokers (41 per cent disagreed, compared with 18 per cent who agreed). In both cases, around four in ten customers didn't know one way or the other.

5.3 Disadvantages of using a pawnbroker

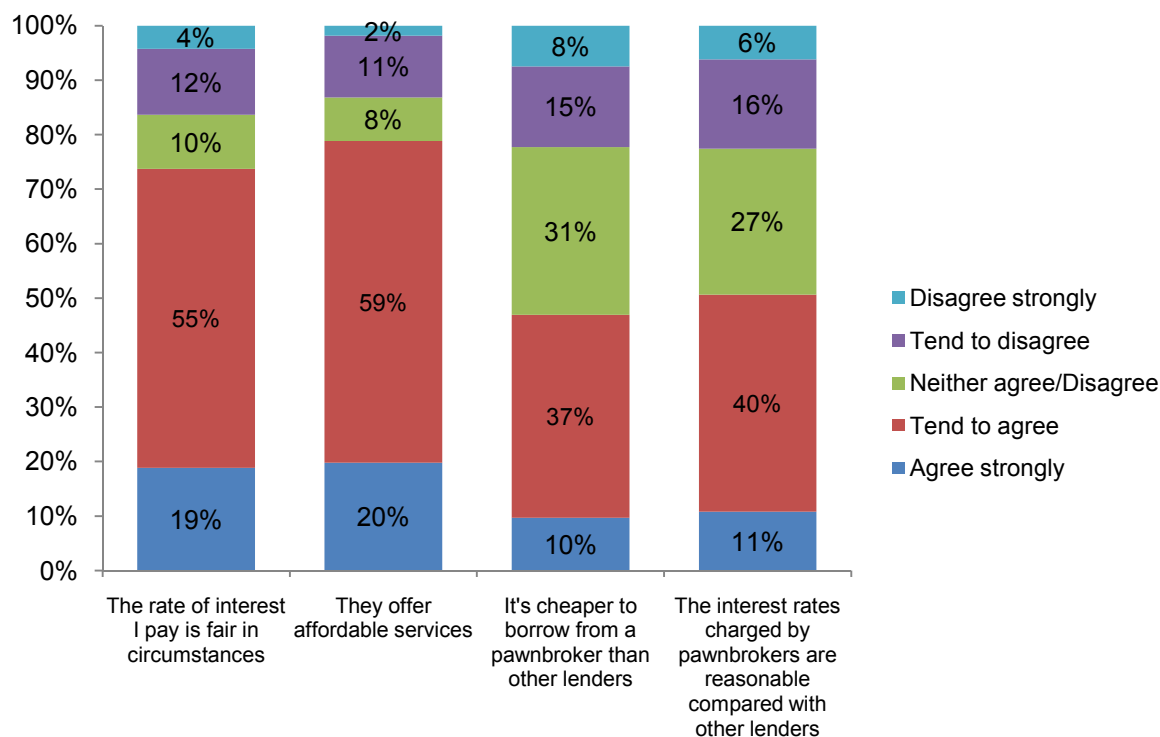
Two main disadvantages were mentioned by customers in relation to using a pawnbroker:

- The cost of borrowing, mentioned by 32 per cent of customers. This seemed to be a particular issue for young people in their 20s, and those in work.
- The risk of losing the pawned items if the pledge was not renewed or redeemed, again mentioned by 32 per cent of customers.

Three in ten customers (28 per cent) did not know what the main disadvantage might be for them.

Customers' views about the cost of borrowing from a pawnbroker were explored further through a number of attitude statements (Figure 5.4).

Figure 5.4 Customer attitudes to the costs of borrowing



Source: Customer survey. Unweighted base: 502

The majority of customers we surveyed agreed with the statements ‘The rate of interest I pay is fair in the circumstance’ (74 per cent) and ‘They offer affordable services’ (79 per cent). In both cases, more customers tended to agree than agreed strongly.

When asked how the cost of borrowing from a pawnbroker compared with other lenders, about half of customers (47 per cent) agreed that it was cheaper to borrow from a pawnbroker than from other types of lender. A similar proportion (51 per cent) agreed that the interest rates charged by pawnbrokers were reasonable compared with other types of lender. Again, in both cases, more customers tended to agree than agreed strongly. A relatively high proportion of customers were unable to say one way or another (Figure 5.4).

Overall, these responses from customers suggest that, while cost was perceived to be a disadvantage, the other options open to them might not be any cheaper.

Appendix

Telephone survey sampling

Seven pawnbroking companies provided loan-level management information relating to around 5,500 customers for the telephone survey sample. The information related to loan contracts with an end-date of 30 November 2009. The companies that provided data varied in size in terms of number of shops they operated. All the companies were NPA members.

We drew a sample of customers with valid telephone numbers from six of the seven companies (the seventh company was unable to provide customer telephone numbers). A proportionate number of customers were selected from each company. To help ensure that selected customers were representative of the population from which they were drawn, customers were first stratified by gender, whether or not the individual was a new customer and loan value. A total of 3,809 customers were selected for the sample in this way.

Fieldwork

We sent an advance letter to all sampled customers, informing them about the purpose of the research and giving them the opportunity to opt out of the telephone survey. Relatively few customers (around three per cent) opted out of the research at this stage.

The telephone interviews were conducted by skilled and experienced interviewers from The Research Partnership using a questionnaire developed by the Personal Finance Research Centre. The average interview length was 16 minutes.

Achieved sample

It was not possible to conduct interviews with 1,696 of the 3,809 customers that were sampled originally. The main reason for this was that a large proportion of the customer telephone numbers provided by the pawnbroking companies were wrong or unobtainable. In a further 1,147 cases, no contact was made with the customer despite multiple telephone calls. A total of 502 interviews were achieved from the remaining 966 customers, equivalent to 52 per cent of customers where contact was made. The refusal rate as a proportion of all eligible contacts was 22 per cent. A breakdown of the sample is provided in Table A1.

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Table A.1 Fieldwork outcomes

Outcome	Number	%
Issued sample	3,809	100
Ineligible for interview (opt-outs, unobtainable or wrong number, returned letters)	1,696	45
Of remaining eligible contacts:	2,113	100
No contact made despite multiple calls	1,147	54
Of eligible contacts where contact was made:	966	100
Interview achieved	502	52
Interview refused	464	48

Data analysis

The survey data was input into an SPSS dataset for analysis.⁷ Our preliminary data analysis indicated fairly substantial discrepancies between the composition of the customers represented in the management information and the composition of the achieved survey sample by age, but not by other key variables (lender, gender, and whether a new or existing customer). We therefore weighted the data to correct for this discrepancy (see Table A2). This weighting had only a minimal impact on the other key variables.

Table A.2 Data weighting for age

Age group	Survey		Population (excl. don't knows)		Target	Weight
	No	%	No	%		
16 - 19*						
20 - 29	85	17	1,455	28	139.49	1.641
30 - 39	99	20	1,324	26	126.93	1.282
40 - 49	138	27	1,280	25	122.71	0.889
50 - 59	101	20	730	14	69.98	0.693
60 - 69	53	11	261	5	25.02	0.472
70+	16	3	82	2	7.86	0.491
Not stated	10	2	0	0	10	1.000
Total	502	100	5,132	100	502	

**Note that the first two age groups were combined to avoid a very large weight on the youngest group. The age group 16-19 would have otherwise attracted a weight of 7.813.*

Cases where respondents said they didn't know or refused to answer a question are excluded from analysis unless otherwise indicated.

⁷ SPSS is a statistical software package used routinely in social science research.

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