

Extending credit

Understanding pawnbroking
customers' options

Jake Shepherd

SMF

Social Market
Foundation

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Kindly supported by



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CONTENTS

Acknowledgements	4
Foreword	5
Executive summary	9
Chapter One – Introduction	10
Chapter Two – Understanding pawnbroking	12
Chapter Three – Understanding pawnbroking customers' options	20
Chapter Four – Improving borrowers' options	30
Endnotes	33

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FOREWORD FROM THE SMF

By James Kirkup, Director of the Social Market Foundation

The Social Market Foundation is a charity whose purpose is to educate the public – and their representatives – about economics and politics, with a particular focus on markets and social justice. More simply put, we're interested in markets and how they work for the people who use them. Especially people of limited means.

That's why we carried out this research. Like it or not, there is a market for credit in this country. Some of the people who purchase credit products – borrow – do so because of their limited means. Some people involved in public policy appear to wish that wasn't the case. But policy cannot be based on aspiration. It must rest on evidence, and fact. And the fact is that there is a market for credit products for people with incomes well below the national average. Some of those customers are in poverty. Some have characteristics of vulnerability. All have decided that they will borrow.

Again, some observers appear to wish this was not the case. Sometimes, parts of our political discourse have come close to suggesting that the answer to high interest rates and controversial lending practices is to regulate out of existence all credit products for people on low incomes. And it would be nice to live in a world where people on low incomes didn't need to borrow to make it to the end of the month. But until we reach that world, that borrowing will take place.

That being so, the priority for policymakers should be to make sure the market for credit products for people on low incomes works better for those people. The first step towards that goal is better understanding of that market and its participants. And that is why this report has been written: to give policymakers more information about part of the credit market.

This report does not make the case for pawnbroking or make the case against it. We take no position on what should or should not be. We are interested in things that exist. Pawnbrokers exist. They exist because there is demand for their products. The customers who create that demand are poorly researched and poorly understood, and our hope is to improve understanding of them and their options.

As so often with the SMF's research into contentious markets, a key message that emerges here is that those customers are more rational than many political narratives give them credit for. Rather than being exploited or bamboozled into financial decisions, they are taking what they estimate to be the least-worst choices from a set of suboptimal options. In that, they are no different to anyone else, including the sort of people who might read this report.

Some such observers dislike pawnbrokers and would shed no tears if they ceased to exist entirely. But what would happen then? Given the declining number of pawnbroking shops in the UK, that question is not fanciful. Policymakers interested in low-income consumers and their credit options need to know more about the 350,000 people who use pawnbrokers each year – and what they might do if they no longer had that option. Filling that evidence gap is the aim of this report.

What policymakers choose to do with the information we present here is a matter for them: we make no comment here on where policy should go next. But anyone wanting to make the market in credit for low-income customers work better will find both evidence and suggestions for further investigation here. We hope the result is better policy and so better outcomes for the people whose voices this report seeks to amplify, since they are too rarely heard in debates about public policy.

We are deeply grateful to all our interviewees for their time and insights. Our thanks too to those experts, stakeholders and policymakers who participated in this project's design and implementation – we are especially indebted to Bristol University's Personal Finance Research Centre. Finally, gratitude is due to the National Pawnbrokers Association for supporting this project and the SMF's work as an independent research charity. As ever, we retain complete editorial independence, meaning this is our work and ours alone.

FOREWORD FROM THE SPONSOR

By Ray Perry, Chief Executive of the National Pawnbrokers Association

The National Pawnbrokers Association (NPA) is delighted to sponsor this important research into the societal role pawnbrokers play and the negative impact on customers if they no longer had access to pawnbroking services. The NPA has been established for more than a century. It currently represents 97% of pawnbroking businesses across the UK. Pawnbrokers collectively employ around 6,000 people and provide an important service to a broad demographic customer base of approximately 350,000 customers in the UK.

The average loan is around £300 with over 86% of customers repaying their loans. Those that do not repay have no ongoing debt consequences, the item pledged is sold to repay the loan, any shortfall is written off by the pawnbroker and any surplus monies, after the debt is repaid is repayable to the customer. Recent research shows that over 91% of customers who use a pawnbroker were satisfied with the service provided.

Despite well-established businesses and highly regulated processes the pawnbroking market is in steep decline. Over the last ten years the number of pawnbrokers has fallen by over a third and the number of shops fallen by almost two thirds to around 135 pawnbroking businesses operating approximately 850 stores. Whilst three large chains of pawnbrokers have ceased trading, the biggest challenge has not been regulation but the systematic closure of bank accounts across the whole UK banking industry which the banks refer to as 'de-risking'. The number of bank accounts held by pawnbrokers has more than halved in the last 6 years and 82% of pawnbrokers supplying travel money have had their trading accounts closed in the same period. At the same time no bank will open a new account for a pawnbroker, so there is a barrier to entering the market. Accounts are closed because of perceived risk rather than real risk. We believe that these account closures are a result of misconceptions by these banks' senior management teams about the activities, ethics, and money laundering risk of pawnbroking, and the NPA is working closely with UK Finance and the banks to try and alleviate misplaced concerns.

Pawnbrokers provide an ethical service to those customers who need immediate or short-term borrowing, often being the only remaining, legitimate option where banks are unwilling to assist. Without pawnbrokers more people would turn to illegal lenders. A survey by the Centre for Social Justice in March 2022 found that 1 million people are estimated to be using loan sharks and the survey highlights that this is expected to increase.

This independent report by the Social Market Foundation demonstrates the highly valued service that pawnbrokers provide. Pawnbrokers need to be able to continue providing a service that many customers choose for its simplicity, and because it provides a desperately needed safety net to prevent more people becoming financially vulnerable and victims of loan sharks. To this end NPA continues to seek solutions with the banks, the Financial Conduct Authority and H.M. Treasury in the best interests of customers who would struggle without pawnbroking and are not able to travel miles across the country to find their nearest surviving pawnbroker.

We believe that the recent pandemic combined with the rapid increase in the cost of living, adds a real sense of urgency to resolve the issue between banks and the pawnbroking sector. To this end NPA continues to seek solutions with the banks, the Financial Conduct Authority and H.M. Treasury in the best interests of customers who would struggle without pawnbroking.

EXECUTIVE SUMMARY

Pawnbroking is an industry in decline

- Pawnbroking has historically faced criticism and some contemporary narratives continue to associate pawnbroking with shame and exploitation, but official and academic research has found that the sector provides a legitimate credit product to its 350,000 customers.
- The pawnbroking sector is in decline, with industry figures showing that shops are closing. In 2014, there were 2,091 shops in the UK. In 2021, there were 865. Industry members say one reason for this is that banks are withdrawing their services from pawnbroking businesses.

Pawnbrokers provide a vital service to solving cash flow problems

- Pawnbroking customers have lower than average incomes and are sometimes living in difficult and precarious financial circumstances.
- Pawnbroking customers interviewed for this report largely said that they use pawnbroking as a form of cashflow management, gaining access to credit that they use for routine living costs when cash is short, for instance towards the end of their financial month.
- Interviewees reported that they are generally satisfied with pawnbroking services. Some complained of high interest rates, but they also regarded those rates as an inherent aspect of pawnbroking.
- Interviewees said they use pawnbroking because they have few or no other significant alternative means of accessing credit products. They would like to be able to borrow from high street banks, but believe that is not possible because of their credit score.

Customers are unsure what they would do if pawnbroking became unavailable

- Interviewees reported significant uncertainty about what they would do if they could not access pawnbroking services. Alternatives suggested by interviewees included payday loans; doorstep lending; borrowing from friends and family; and selling household items for cash.
- Geography and transport are a significant factor in accessing credit through pawnbroking. Some interviewees said that if their local pawnbroking shop were to close, they have no financially viable way to travel to the nearest alternative shop, which might be in another town or area.
- Lack of access to credit could have serious consequences for interviewees, particularly in the context of rising inflation and falling real incomes, including from benefits. Interviewees concerns include having less scope to spend on food or heating.

CHAPTER ONE – INTRODUCTION

Pawnbrokers serve around 350,000 customers a year, offering £300 million in lending.¹ Some have criticised the industry for making profits from customers who sometimes have low incomes and experience financial vulnerability.^{2 3 4} Others say the sector is an important source of credit to people who, without borrowed money, might struggle.^{5 6 7}

Pawnbroking customers are more likely than the general population to have low incomes, live in social housing, and not have a transactional bank account, and they are therefore less likely to be able to access mainstream credit services.⁸ In that context, official and academic reviews of the sector have concluded that pawnbroking services provide an important lifeline of credit to customers, and that customers are generally satisfied with the service that pawnbrokers provide. The Financial Conduct Authority found that pawnbroking poses little harm to consumers.^{9 10}

Despite research showing that pawnbroking is of value to borrowers, there are some ongoing trends which suggest that it is declining as an industry.^{11 12} In a marketplace where credit services are rapidly moving online,^{13 14} the closure of pawnbrokers shops could have significant repercussions for customers. As there are already few options available to those in need of credit, with many low-income consumers excluded from mainstream options, the discontinuation of pawnbroking would, logically, mean borrowers have even fewer alternatives. Dr Joanne Atkinson of the University of Portsmouth has suggested that the decline of pawnbroking may increase the risk of financial exclusion.¹⁵

This is the main concern of this report. Given reports that the pawnbroking industry is declining, in an environment where credit options are limited, this report aims to explore the role of pawnbroking in customers' financial lives. In particular, it tries to identify what would happen to those customers if the pawnbroking sector continues on its downward trend.

This report reviews existing literature around the pawnbroking industry and its customers, as well as the wider regulatory environment for high-cost credit. It also offers new primary evidence, drawn from in-depth interviews with 20 pawnbroking customers, building a picture of why they use pawnbroking, how satisfied they are with it, and, crucially, what they would do if it were to vanish from the credit market. Because of a lack of up-to-date evidence on the supply side of this market, informal interviews were also carried out with industry members to discuss what it is that is driving business closure. While these interviews comprised the majority of the primary research in this report, it has also been informed by an expert roundtable held in March 2022, which brought together specialists from government, the finance services sector, academia, and civil society.

The structure of the report is as follows:

- **Chapter Two** outlines the key elements of pawnbroking, including its regulatory makeup, industry trends, and the profile of customers.
- **Chapter Three** explores customers' experience of pawnbrokers, and tries to understand the role pawnbroking plays in their financial lives.
- **Chapter Four** discusses potential avenues for improving pawnbroking and the wider consumer credit market.

CHAPTER TWO – UNDERSTANDING PAWNBROKING

Pawnbroking has been in existence for over 3,000 years, and it is one of the oldest professions in human history.¹⁶ It is thought to be the world's very first source of credit, as well as its earliest financial institution.¹⁷

Still found on today's high streets, pawnbroking is a service that has endured through the ages. Even though pawnbroking customers and their borrowing needs are unrecognisable to those of ancient times, the basic principles of the service have remained unchanged.

Pawnbroking is premised on the lending of money on the security of an asset, allowing someone to temporarily gain cash by pledging an object to be held for a certain length of time. If the owner of the item pays back the loan within that agreed period, plus the agreed amount of interest, then their item is returned. If the owner is unable to pay off their loan, the pawned item will be listed for sale by the pawnbroker.

In today's pawnbroking, there are contractual procedures that both pawnbrokers and customers must adhere to. That process is as follows:^{18 19}

- The customer takes their item to the pawnbroker where it is valued, and the size of the loan is agreed.
- A loan agreement is made, where the specifics of the loan, for example the duration of the loan and the charged rate of interest, is detailed.
- The customer is entitled to withdraw from the agreement within 14 days. This is known as the 'cooling off' period.
- The agreement between customer and pawnbroker is secured against the item pawned. Because the value of the loan is pledged against the customer's asset, customers are not credit checked.
- If the customer is unable to meet the conditions of their loan, they will not be chased for any debt that exceeds the pawnbroker's sale value of the item. If there is surplus on the sale, after all associated costs and debts, it can be collected by the customer.

As academics at the University of Bristol's Personal Finance Research Centre (PFRC) have set out, there are four options available to the customer when they reach the end of their pawnbroking contract:²⁰

1. The loan and the interest are paid by the customer, allowing them to redeem their goods.
2. The customer repays the interest and some of the credit.
3. The interest owed by the customer is repaid but their contract is renewed based on the original pledge, effectively extending the loan.
4. The customer forfeits their goods, and it is listed for sale by the pawnbroker.

Perceptions of the pawnbroking industry

Even though the public has had increasing insight into the pawnbroking industry and how it works, as demonstrated by a range of reality television programmes such as *Pawn Stars*, *Posh Pawn*, and *Million Pound Pawn*, pawnbroking continues to face

reputational challenge that sometimes owes more to history than contemporary evidence.

One academic history published in 2012 noted that at various points during previous centuries, the pawnbroking industry faced suspicions of charging excessive interest rates, employing dubious business practices and operating beyond regulatory oversight.²¹ A 2017 paper noted that negative (and arguably snobbish) attitudes towards pawnbroking persist in some contemporary cultural discourse, suggesting that pawnshops are perceived as residing in socially undesirable areas, such as back alleys or hidden side streets, while customers are seen as desperate and unfortunate. However, the same paper suggests that such perceptions of pawnbroking can largely be attributed to a lack of awareness of the industry and how it works today.²² In other words, views of pawnbroking are sometimes based on assumptions rather than evidence.

The new regulatory landscape

Ever since the Pawnbrokers Act was passed in 1872, legislation has sought to protect both borrowers and pawnbrokers from fraudulent or exploitative activity. The pawnbroking trade has therefore been governed by statutory rules for many years.²³ In recent years, pawnbroking – as part of the wider credit market – has become even more heavily regulated:²⁴

- In 2006, the Consumer Credit Act was amended to better protect consumers across the credit market.
- In 2014, the Financial Conduct Authority (FCA) began to supervise the credit market, introducing new rules and guidelines for money lenders to adhere to.

In 2018, as part of its approach to its supervision of the high-cost credit sector, the FCA carried out a review of the pawnbroking industry in order to assess its potential risks. The review found that several robust controls were put in place by pawnbrokers in order to reduce harm, and that they demonstrated several key strengths. Quality of service, flexibility of product terms, and a culture of fairness were all highlighted as positive features of the pawnbroking business model.²⁵

While some areas for improvement were also identified by the FCA – for example, customers not always receiving the surplus money owed to them when an unredeemed pledge was sold, or the risk of pawnbrokers being exploited for financial crime, such as money laundering – their review found that, overall, pawnbroking is not “a priority area in terms of potential risk or harm to consumers”.²⁶

The FCA’s findings have also been supported by survey data produced by the PFRC. In 2020, they found that most pawnbroking customers (91%) are satisfied with pawnbrokers, that they’re happy with the way pawnbroking works, and that there is “no specific vulnerability emerging in relation to their engagement or interaction with the pawnbroking market specifically or the outcomes that result from these”.²⁷ Pawnbroking has also been shown to be less costly than other types of alternatives, non-mainstream credit and, because loans are secured against a pledge – the distinguishing component of the service – it is recognised as being relatively low-risk.²⁸

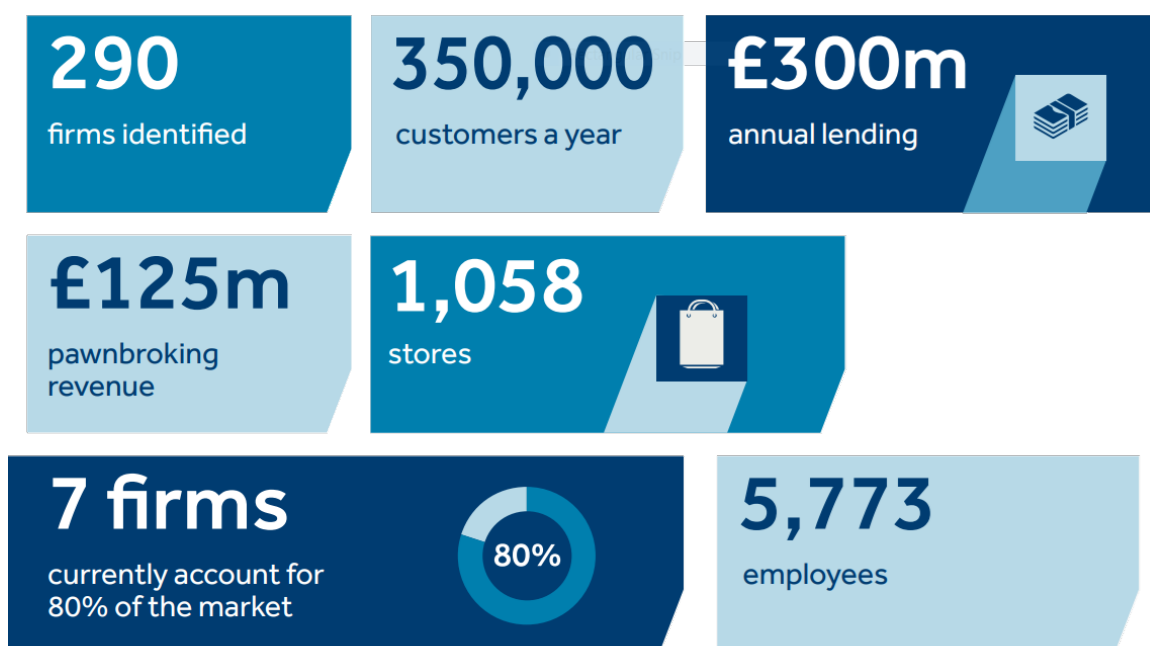
Industry data and trends

Although pawnbrokers have existed for millennia, researchers know little about them.²⁹ There is a paucity of evidence on pawnbroking, and over the past two decades there have been just three major studies of pawnbroking and how it works: the FCA's sector review of pawnbroking³⁰ and the PFRC's survey of pawnbroking customers³¹ – which was an update of a previous customer survey conducted in 2010.³²

Pawnbroking is a small, relatively niche industry. In 2018, the FCA found the sector was comprised of just 1,058 stores, 5,773 employees, and a revenue of £125 million.³³ In comparison, the credit card industry – the most common avenue of consumer borrowing^{34 35} – is expected to have a revenue of £13.5 billion.³⁶

The FCA has also estimated that pawnbrokers serve around 350,000 customers a year, offering £300 million in annual lending.³⁷ As discussed above, both the FCA and PFRC have identified key strengths in the industry, concluding that pawnbroking poses little harm – and offers satisfaction – to their customers. But despite these positive findings, there are some ongoing trends which suggest that pawnbroking is waning as an industry.

Figure 1: Pawnbroking sector data, 2018



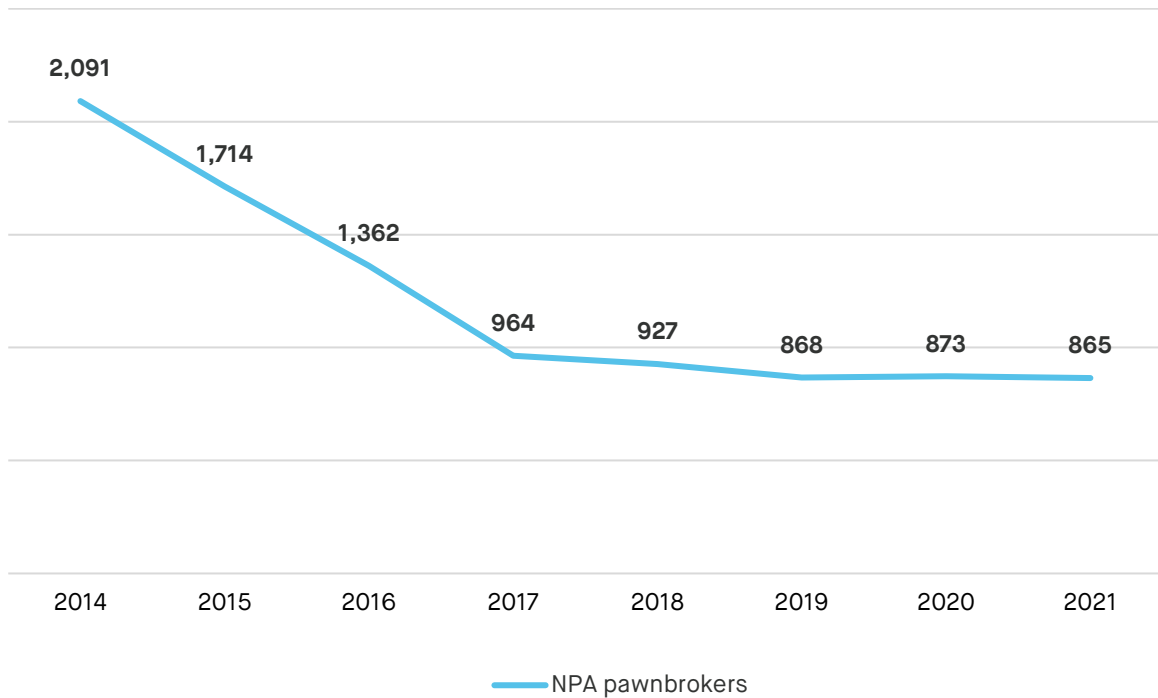
Source: Financial Conduct Authority

Industry data from the National Pawnbrokers Association (NPA) (Figure 2) shows that the number of pawnbroking stores has decreased dramatically, more than halving between 2014, when there were over 2,000 stores, and 2017, when there were 964. In 2021, there were just 865 pawnbroking stores in the UK. The NPA does not represent all of the pawnbroking trade, but it does cover the vast majority of it – the association reckons that 97% of all pawnbroking firms in the UK are NPA members.³⁸

There is little to no publicly available literature, official or academic, that seeks to explain this trend towards business closure. Given the sparsity of evidence on pawnbroking, particularly on the supply-side, informal interviews with industry members – members of the NPA – were carried out by the SMF in order to understand why shops are disappearing, and the subsequent effect that reduced access to pawnbroking services might have on customers. According to pawnbrokers, stores are closing for a handful of reasons:

- 1) Increased regulation has forced some businesses, particularly high-cost lenders which also provide pawnbroking services, to shut down. This is said to be because of the stricter rules, introduced by the FCA in 2015, negatively affecting their profit margins. It is important to note that some pawnbroking chains, for example The Money Shop, are reported to have shut down due to the weight of complaints made against of them about “historic misdeeds”,ⁱ rather than as a direct result of FCA regulation.^{39 40}
- 2) Retail banks have been withdrawing their services from the pawnbroking industry. Cited as the main cause of closures, banks have been accused by people in the sector of cutting off their services to pawnbrokers and closing down shop operators’ bank accounts without obvious justification. Industry members suggest there are two reasons for this. First, banks are under pressure from the FCA to monitor the industry, resulting in higher cost compliance, greater labour intensiveness, and, as a result, increased financial risk. There is also reported to be an element of reputational risk, as banks do not want to be associated with a sector perceived to be used for money laundering. The NPA has carried out research examining the extent of bank’s ‘de-risking’ operations, showing that, in 2019, the total number of NPA members’ bank accounts was just less than half (46%) the number of accounts four years previously.⁴¹ Examining the causes of such decline is out of the scope of this report.
- 3) There have been few new entrees to the market. For the reasons stated above, given increasingly rigorous and time-consuming regulatory processes and the banking difficulties faced by the pawnbroking sector, prospective entrees are said by existing sector participants to be deterred from joining the industry.

ⁱ Some lenders have been accused of exploiting vulnerable customers, with the FCA’s crackdown on payday lending leading to many customers claiming compensation, alleging breaches of affordability rules.

Figure 2: The number of pawnbroking stores in the UK, 2014-2021

Source: National Pawnbrokers Association

Industry members suggest these trends will put local markets most at risk. A common concern expressed involves the geographical coverage of the sector. It is reported that small, independent pawnbrokers are more likely to be found in small towns as one of just a few pawnbrokers in that area. If a pawnbroker in that small town goes, it is likely that the entire provision for that area will also vanish. This may be of greatest relevance to rural communities and post-industrial towns with limited transport links.

Pawnbroking customers

If not for surveys carried out by Bristol University's Personal Finance Research Centre, we would still know very little about pawnbroking customers. As the most in-depth studies into pawnbroking to date, this research has provided an overview of the pawnbroking industry from the perspective of customers, exploring their key characteristics, why they take out pawnbroking loans, and their attitudes to pawnbroking and how satisfied they are with it.^{42 43}

In a 2020 PFRC study, analysis was carried out using customer survey data and loan-level management information provided by the NPA. The PFRC found that pawnbroking customers have a broad demographic profile, with respondents more likely to be female (52%) and to be under the age of 55 (76%).ⁱⁱ In terms of their socio-economic

ⁱⁱ Although some of the data supplied by pawnbroking companies was missing, compared with management information the PFRC's own survey results have over-represented (67%) and under-represented (68%) these respective characteristics. Because management information relates to loans that had already been taken out by customers, they are likely to be most accurate. The percentages displayed for female and under 55s are therefore derived from management information data, not survey data.

characteristics, it was most common for customers to be living without dependent children (66%), to be in a working household (69%), and to be living in socially rented housing (43%). Unsurprisingly, customers were more likely to be on a low income, with 62% living in households with an income equivalent of less than £1,500 per month – far below the UK median at the time (£2,364).⁴⁴

Table 1: Demographic profile of pawnbroking customers

Gender	Female	52%
Age group	Under 54	76%
Family type	Without dependent children	66%
Workless household	No	69%
Housing tenure	Socially rented	43%
Net income	Up to £1,500	62%

Source: Personal Finance Research Centre

With respect to pawnbroking customers' financial circumstances, the PFRC found that most survey respondents (75%) were able to keep up with their bills and credit commitments. Ultimately, though, the majority of pawnbroking customers are on low incomes, meaning they are more likely to experience financial difficulty and demonstrate higher levels of financial exclusion than the average household:⁴⁵

- 43% said they always or usually ran out of money before the end of the month, with 40% saying they sometimes run out.
- 59% used their pawnbroking loan to pay for essential living expenses, such as food, whereas 14% used it to pay rent or other household bills. Respondents were unlikely to use their loan to fund discretionary spending, or to pay off existing debts.
- 69% had used another form of credit in the previous 12 months, the most common forms of borrowing coming from friends or family (17%), doorstep lenders (12%), credit cards (11%), and budgeting loans, overdrafts, and payday loans (10% each).
- 14% did not have a transactional bank account. This is significantly higher than the level of unbanked people in the general population, which is estimated to be around 1%.⁴⁶

Customer welfare and financial exclusion

According to the PFRC's analysis, the emergent picture of pawnbroking customers and why they use pawnbroking services is one of necessity. While not all are severely struggling, few are comfortable as pawnbroking is typically used to put food on the table or keep a roof over one's head. Here, a key consideration of the PFRC is that pawnbroking loans are taken out to manage day-to-day essentials and, as a result, "a consequence of not being able to access small loans may result in defaulting on other commitments".⁴⁷

The PFRC has also identified pawnbroking customers as being more likely to have low incomes, live in social housing, and not have a transactional bank account. As such, they are less likely to have sufficiently high credit scores and be able to access credit services such as those provided by banks and other financial services firms. As recent research from Demos has pointed out, the “double blow” of being financially vulnerable and a lack of access to affordable credit can be problematic. In times of financial hardship or crisis, those that are vulnerable must often choose between high interest loans or going without everyday essentials.⁴⁸

While pawnbroking is considered to be a form of high-cost credit⁴⁹ and it is relatively expensive – the average APR of a pawnbroker is 120%,⁵⁰ whereas the representative APR on a credit card typically ranges from 20% to 30%⁵¹ – it remains at the lower end of the range when compared to alternative forms of credit in the same category.⁵² Because pawnbroking loans are secured against an asset, customers are unlikely to spiral into debt.⁵³

Table 2: Average poverty premium across different forms of high-cost credit, 2019

High-cost credit	Households incurring premium	Cost of poverty premium (£/year)	Average poverty premium (£/year)
Rent-to-own	2%	£182	£4
Short term loan	4%	£237	£9
Home collected loan	4%	£644	£26
Pawnbroking loan	2%	£152	£3
Subprime personal loan	6%	£557	£33
Subprime credit card	12%	£207	£25
Mail order catalogues	10%	£60	£6
Christmas hamper scheme	1%	£47	£0

Source: Personal Finance Research Centre

The closure of pawnbrokers, as discussed in Chapter Two, could therefore have significant repercussions for customers. In 2019, Dr Joanne Atkinson, an academic at the University of Portsmouth, published an article in *The Conversation* suggesting that, because more and more pawnbrokers are closing down, there is a reduced amount of options available to those in need of credit, increasing the risk of financial exclusion. In the words of Dr Atkinson, if the pawnbroking industry continues to decline, “consumers who are excluded from mainstream credit will have fewer alternatives than ever”.⁵⁴

This is the primary focus of this report. We seek to answer questions. If customers of pawnbrokers are no longer able to access pawnbroking, what would they do instead? If the current trend towards business closure continues and pawnbroking services are greatly reduced or even eliminated, what would that mean for customer welfare and financial exclusion?

CHAPTER THREE – UNDERSTANDING PAWNBROKING CUSTOMERS' OPTIONS

This chapter explores customers' experience of pawnbrokers, how important pawnbroking services are to them, and what the consequences would be if those services were no longer available.

To build upon the survey data already published by the PFRC and to better understand the role that pawnbroking plays in the wider financial ecosystem, the SMF carried out in-depth interviews with 20 current and former pawnbroking customers. Participants were selected according to the PFRC's 2020 profile of customers, matching the demographic established in their survey so the sample was as representative of the pawnbroking population as possible. Interviewees also included customers from local areas where pawnbrokers were sparsely distributed and the associated risks of not having access to pawnbroking would, in theory, be more pronounced. Our interviewees were identified and selected by the SMF using an independent research consultancy; no one involved in this process has any connection to the pawnbroking industry. The interviews took place in February 2022.

While a sample cannot always be expected to be entirely representative of its target population, especially in small-scale, nongeneralisable qualitative studies such as this one, there were some notable differences to the PFRC customer profile. Although there were mostly only minor variations between the two pools, some characteristics – living without dependent children (-36pp), being female (+33pp), living in a working household (+26pp), and using other forms of credit (+21pp) – were considerably over- or under-represented. These discrepancies were caused by difficulties in targeting participants – customers were drawn from local places where pawnbrokers are sporadic and a market that is not used by the vast majority of the general population⁵⁵ – and by natural fallout. There is nothing to suggest the above sampling variations have significantly affected the results of this research.

Below are the key themes that emerged from interviews with pawnbroking customers.

Customers tend to be struggling financially, but not all are desperate

Most participants described having difficult financial situations. The majority were on a low income, with some being unemployed and in receipt of benefits, single mothers, or having health issues. While their circumstances differed and distress was experienced to varying degrees, no current pawnbroking customers described themselves as being financially comfortable. In some cases, customers said they struggled to meet their basic needs. For instance:

"I haven't got savings or anything like that, so it's about making ends meet at the moment."

"We meet the basic needs but don't have any spare cash for anything."

"Money is an issue, it's a bit tight for the household right now. We meet the very basic needs but we can't think about the other things because we don't have the means to deal with it."

Not all participants were struggling so severely. However, such customers were worried that, given surges in inflation, ever-rising food and energy prices, and the crunch on living standards, that their situations could soon change:

“We’re on benefits and benefits alone, it’s hard. Gas and electricity prices have been crippling us.”

“It’s tight. The price of everything is going up, so we’re trying to fiddle things around.”

“It’s not too bad, but I’m really worried about everything going up.”

Many participants said they are or have been in debt in the past, with credit card debt and debt regarding everyday bills – for example council tax or TV licenses – being cited the most. However, participants generally seemed wary of getting into debt, how to avoid it, and in some cases demonstrated good debt management. Interviewees seemed to be victims of their circumstances, and there was little to suggest that interviewees were reckless or financially irresponsible.

“I’m not in debt at the moment, but I definitely have been. My partner and I have an IVA [individual voluntary arrangement] which we pay off so all of our debts are being consolidated.”

Indeed, participants described of suffering from bad decisions or difficult situations from the past. In particular, interviews spoke of having a poor credit history and a credit score that has endured for many years. Even if they had been out of debt or had not missed a payment in a long time, they were unable to build their credit scores back up. This has prevented customers from getting credit with lower interest rates, reducing their options and perpetuating debt cycles.

“My credit history is probably quite poor. I’m not able to get credit. In the past, I’ve struggled to get a loan or a payday loan and have been declined.”

“I’ve got a credit score and at the moment it says it’s quite good, but I still can’t get anything on a lower interest or interest free.”

“I was always very good, I had a good credit rating at that point. Now it’s lousy because I went into default. So now getting credit is one of the hardest things to do.”

Linda's story

Lindaⁱⁱⁱ is a full-time carer and lives with her teenage daughter in Falkirk. She earns a low income, and has no access to credit because her ex-husband had accrued a considerable amount of debt in her name. She used to have a good credit score, but it has since been ruined by his debt.

Linda finds pawnbroking to be expensive and embarrassing, but she is unable to access mainstream credit and looks to avoid other high-cost lenders at all costs. She only uses pawnbrokers to pay for essentials, such as for food, bills, and Christmas expenses. While pawnbrokers do not play a significant role in Linda's financial life, they were described as being important when needed.

"That's what I like about them, that they're there in your time of need. And you're actually handing over an item, which gives security to know that they're not going to chase you for the money."

Overall, Linda is happy with the service pawnbrokers provide. They're always available in times of need and there is no risk of being chased up for non-payment or her credit score being affected. She dislikes its "astronomical" interest rates, but accepts it as part and parcel of the service. If her local pawnbroker was to close, Linda said she would travel to the next nearest one, though she is mindful of the travel costs.

Pawnbrokers provide a vital service to solving cash flow problems

All participants had used or currently use a pawnbroker in order to get a loan. Between them the frequency of use differed, with some using pawnbroking services much more frequently than others. Many participants have been using them for many years.

Typically, participants said they use pawnbroking for everyday essentials, such as paying bills, paying rent, or buying food – corroborating findings in the PFRC's customer survey report.⁵⁶ Pawnbroking was often described as a cash flow remedy, using loans to pay for necessities towards the end of the month when the previous months' wages were coming to an end. Because pawnbroking customers are unlikely to have savings, participants also said they use pawnbroking for unexpected emergencies, for example broken machines or car repairs. Typically, the money lent by a pawnbroker was small – around £100 or less – reflecting customers' need for quick fixes.

"I need this money to be able to buy food. It is as simple as buying food."

"Usually it's for food and bills. It's more near to the end of the month if I'm struggling or if it's been a long month."

ⁱⁱⁱ Pseudonyms have been used to protect participants' identities.

“It’s for essentials and essentials only, other than Christmas.”

“Mostly it’s just to meet rent.”

“I don’t have a savings pot, so if my washing machine did break I would need [a loan].”

Often, participants said they used pawnbroking because they are unable to go anywhere else, or because their other options are less preferred. As such, pawnbrokers were described as playing an important, if not necessary, role in customers’ financial lives. Usually, this meant pawnbrokers acting as a cash flow solution for occasions when customers needed them, as something they can rely on when times get tough.

“They provide a fill-in service when necessary.”

“I know I have it in the background, so I worry a lot less. It stops me from using food banks and things like that, so I feel more positive about myself.”

“Just having the option is vital. There’s nothing worse than feeling like you’re trapped in a corner and you have no option, no way out.”

The PFRC conducted its most recent customer survey in February and March 2020, just before the full impact of the coronavirus pandemic was realised.⁵⁷ Interviewees revealed that the crisis had affected how they use pawnbroking because, not only had some lost their jobs or been placed on furlough, reducing their income, but they also had to deal with increased expenditure due to spending more time at home during lockdown, particularly if they had children. With less money coming in and, sometimes, more going out, this increased customers’ use of pawnbrokers. With the cost-of-living crunch set to make low income households’ financial lives more difficult over the coming months, this may be a lesson for the future.

“I’ve been on furlough, so that was obviously less payment. I find being at home with the kids increases costs – more food, trying to keep them entertained – my bills have gone up and my food bill has gone up as well. So, yeah, it [use of pawnbroking] has definitely increased.”

Customers are generally satisfied with pawnbroking services

Almost all respondents were satisfied with the service that pawnbrokers provide. While participants acknowledged that they would rather not use them, when they did they received exactly what they wanted: a quick cash injection to help manage cashflow. For this reason, customers generally seem pleased with pawnbroking.

“I’m happy. It’s an exchange that I need at the time.”

“I wasn’t happy I had to use it, but it has got us through some dark times.”

“I’m satisfied because it’s always there if I need it, but ideally I wouldn’t have to if I didn’t need to. It’s handy and it’s helped me out a few times.”

When asked what they liked most about pawnbroking, participants believed convenience and ease of access were the main advantages. Given the nature of pawnbroking and the fact that loans are held against a pledge, customers do not need to go through credit checks and they can get cash within moments of accessing the store – a much quicker process than what is provided by other lenders. Interviewees mentioned other positives of the service, for example being able to negotiate or explain their circumstances to pawnbrokers, building up rapport with them, and not feeling judged. The vast majority of participants said they have never had a bad experience with a pawnbroker. Again, these views echo the PFRC’s study of pawnbroking customers, which found that most respondents (91%) are satisfied with the service they used, citing convenience (45%), speed (39%), and simplicity (37%) as main reasons for using a pawnbroker.⁵⁸

“I like the ease of the whole process. You can be in and out in five minutes.”

“You can have the money there and then. There’s no credit checks, there’s just the speed of it.”

“It’s so easy just to go to the local shop, speak to somebody, hand over my jewellery and get some cash sort of immediately... I think when you apply for loans, you’ve got to wait, and they just do such huge credit checks.”

“I have a good relationship with my pawnbrokers. I can get a week extension for free.”

“It’s personal, simple, and you don’t get asked questions. You don’t get embarrassed.”

When asked what they disliked, most interviewees spoke about pawnbroking’s high interest rates. But some customers recognised this aspect of pawnbroking as a necessary cost, particularly because of its ease of access, and accepted it as a trade-off for the service provided to them. Customers also compared pawnbroking with other forms of lending, such as payday loans, deeming it to be less dear than the alternatives.

“I did think the interest was a bit high because I literally ended up paying double... if you’re late with payments, that can have a big knock-on effect.”

“It’s expensive but it’s handy, convenient, and available. It’s your only option.”

“I do feel like they have high interest but all places like that do, especially if you need the money immediately. Banks are the ones with the lowest interest, but you need a high credit rating for those.”

Emily's story

Emily lives with her three young children and husband in Essex, working part-time as a retail assistant. As a household they are not always able to meet their basic needs. Emily has a history of debt, but is managing to reduce her outstanding bills and payments.

Emily uses pawnbrokers so her and her family do not go without food and other necessities. She typically uses them twice a month, as well as using a credit card. Emily prefers to use pawnbroking over other forms of lending as it's "on [her] terms" and she can get money immediately. Because pawnbrokers don't draw her into making minimum payments, Emily believes they help to stop her from getting into more debt.

"It's open 7 days a week, it's easy, and I don't have to feel bad asking friends and family for money."

Emily thinks that pawnbroking is expensive and, because interest can build up over time, it can lead to some people falling into a cycle. She also thinks that she has been treated unfairly in the past. Despite this, Emily generally views pawnbroking positively.

"I feel like they're preying on me a little bit. Because if I really need it then I'm going to take the lowest price, if I'm desperate for it."

Customers have few lending options

In terms of customers' lending history and their borrowing options, participants reported using a variety of different forms of credit. They mostly referred to payday loans, mainly because of their ease and speed of use, but credit cards, overdrafts, and doorstep lending were also mentioned. Most interviewees said they tend to avoid these alternatives due to their higher interest rates.

"I've used credit cards, but I didn't manage them very well. I've used doorstep loans as well."

"Payday loans I would definitely avoid after the trouble that I've got in with them. They have a massive payment and if you don't pay them back in the first month the fees are horrendous."

"I've done doorstep lending, but their rates are extortionate."

Participants often spoke about bank loans, their lower rates of interest and APR, and the unlikelihood of being accepted for them. Banks stood out as the preferred credit option among interviewees, even though none were able to access them because of poor credit history.

"I've never had a bank loan, but I would prefer it because they have less interest."

“I would prefer it because of low APR and because it goes directly into your account and it can come out with Direct Debit monthly. For me it would be the better option.”

“If I could get any, I’d like a bank loan.”

Some interviewees also spoke favourably about credit unions and the low-cost credit they offer. However, unions are currently underutilised in society, with people largely unaware of the services they offer.⁵⁹ Equally, many credit unions are moving online and the service therefore lacks the same amount of access points as pawnbroking. According to roundtable attendees, it also lacks the instantaneity of pawnbroking lending, and may be unable to assist customers that need cash quickly, such as in an emergency.

“I’d like to get involved with the local credit union. In the past I’ve been in payment clubs.”

Being excluded from mainstream lenders with lower interest rates forces customers to borrow from places they don’t want to go to. One of those avenues is friends and family, with some participants saying they use their social ties if in need of cash, but only if they really need to. Borrowing from close ones is much less risky than alternatives found on the high street, but customers feel it is undignified or embarrassing.

“That’s something they [my family] would definitely do, but I wouldn’t want to. I like to stand on my own two feet, and I don’t want people to know my financial situation or worry about it.”

On balance, interviewees said they prefer pawnbroking over their other, limited options. It’s accessible, convenient, cheaper, and it saves them from feelings of shame and discomfort. With conventional bank loans firmly out of the range of possibilities, customers see it as the best option they have.

“It’s on my terms. I can go when I want. I don’t get judged.”

“I like pawnbroking because it’s easier, and the money is there straight away. The others are limited.”

“I think it’s really good to have it, but it’s not my preferred option. My preferred would be having some form of credit.”

Customers are unsure what they would do if pawnbroking became unavailable

A key focus of this report is to try to identify what would happen to those customers if the industry was to continue its downward trend. In short, customers are not quite sure what they do, with interview participants reporting a significant sense of uncertainty, given their lack of credible alternatives for credit products.

“I’m uncertain about what is available now. If the pawnbrokers shut down, I don’t know [what I would do] but there’s probably other options.”

“I wouldn’t be happy about it because time to time they have been there when I needed them, so it would be missed. I’d pretty much be stuck as to where to go or where to get help.”

“For me that would just mean financial uncertainty, if I needed that extra boost. There’s not really anywhere for me to go to ask for anything. It’s just me so I would have to try and find another source to use when needed.”

Despite pawnbroking customers’ having limited alternatives and feeling uncertainty as to what their best outcome would be, the reality is that other options generally do exist. Participants – many of whom are struggling financially – suggested that if they need additional cash, whether that be for food, bills, or an emergency payment, they will do whatever they can to obtain it. Their situation demands it, even if that means turning to a less preferable option, such as seeking out payday loans, using doorstep lenders, asking to borrow money from friends or family, or selling personal possessions. Even though participants said it would be their most preferred and least expensive credit option, respondents believed they are simply unable to access bank loans.

“I think the only option would be payday loans.”

“If a doorstep lender came I would consider it. You have to take what you can.”

“I’d be asking for more help from friends and family, but that could fray into conflicted relationships.”

“If I couldn’t afford this month’s electric bill, I would ask the children.”

“I would probably go down the road of selling my items, either on eBay, Facebook marketplace, or Schpock. It is an option if I needed money.”

Travelling to the next nearest pawnbroker would also be an option for some customers. However, this would require using public transport or fuel to drive their car – both of which cost money, especially for longer distances. For people on a low income at a time when many basic prices are rising, this raises some basic but important logistic issues.

“If that would be my last resort, then I would have to. I would have to take the bus and check it’s not too far.”

“I don’t drive. If it’s not easily reachable by bus then I’m not going to do it because you’re paying money to get there and back.”

“I don’t drive so it would mean getting on public transport. To the next nearest town that takes 45 minutes, so it’s probably not an option.”

Rachel's story

Rachel is 55 years old, and has been using the same pawnbroker for more than 25 years. She is unemployed and lives in social housing with her daughter and granddaughter, in Truro. Rachel has bipolar disorder and an increased vulnerability to debt. Because of her mania, she has been in extreme debt in the past and worries about falling into that cycle again.

"If I could get other forms of lending then I would. But because of my mania I'm scared of getting too high a loan. I used to have catalogues, a chequebook, a loan, and an overdraft. It became too easy and I came away with £10,000 of debt."

To prevent herself from spiralling, Rachel says she avoids credit and prefers to use a pawnbroker. She uses pawnbroking as a last resort in order to buy household essentials, usually when the money she receives from benefits has ran out towards the end of the month. What Rachel likes most about pawnbroking is the simplicity of the service, how personable it is, and believes they are not overly expensive when compared with other lenders.

If her local pawnbroker was to become unavailable, Rachel said she would be forced to sell some of her personal possessions, such as furniture, when she needed cash. She said she could ask family to borrow, but only if she really needed to. Rachel would be unlikely to travel to the next nearest pawnbroker as she doesn't know of any others in the area. Rachel says a consequence of not having access to a pawnbroker would be having to sell her car.

Although this was not mentioned by interviewees, it is possible that customers could turn to other forms of risky lending. One such option could be the fast-growing buy now, pay later (BNPL) market, which allows consumers to defer payments on purchases, including those made for grocery products. For families that are struggling, there is an underlying risk that, if they quickly amass credit on everyday staples and are unable to keep up with payments, they could be charged late fees, causing them to slip into debt. While BNPL firms are mainstream options that can help people to manage their spending, there are widespread reports raising concerns about a lack of regulation and, in particular, the inability to control how much consumers are able to borrow.^{60 61 62}

Another – more dangerous – option could be the use of unregulated lenders or, as they are more commonly known, illegal loan sharks. The Centre for Social Justice has estimated that over 1 million people could be borrowing from loan sharks today, a group sharing similar characteristics to that of pawnbroking customers: 62% earn below £20,000 each year, 66% already owe money to a legal creditor, and 48% live in social housing. It was also found that victims typically borrow from a loan shark as a last resort. The CSJ say that, together the lack of secure credit options, the emergent cost-

of-living crisis creates "a perfect storm in which people are driven towards exploitation".⁶³

The potential consequences of not accessing credit are significant

When asked what the potential impact of not having access to pawnbroking might be, SMF participants sketched out some bleak scenarios. Possible situations included: being driven to use foodbanks; parents not eating in order to provide food for their children; not being able to put the heating on; not having access to cash in an emergency; going to court for not being able to pay bills; losing the family home.

"If I need to use [pawnbroking] for food, that would mean me having to use a food bank or really budgeting for food at the beginning of the month."

"It would have a detrimental effect. If I have an emergency at the end of the month or I need to get a week's shopping it would be making ends meet by me and my husband not eating very much. It would be the same with limiting gas, water, and electric usage."

"It would be quite stressful. Cupboard stuff would go down, there would be less food, and then I'd really be worrying."

"I'd be up the creek if I didn't have them. I'd have no access to quick cash in an emergency. Pawnbrokers are there if you really, really need them. It definitely would make it harder."

"The impact financially would be massive. You don't want to lose the roof over the family's head. The impact could be so devastating."

CHAPTER FOUR – IMPROVING BORROWERS' OPTIONS

Overall, the evidence collected for this report suggests customers are satisfied with the service that pawnbrokers provide: access to quick, convenient cash that does not require credit score checks and which is unlikely to lead to debt. In a restricted credit environment where there are few lending options, pawnbroking plays a significant role in the lives of financially vulnerable households.

In the context of industry decline and the closure of pawnbroking shops, this raises some significant questions around financial exclusion, the functioning of the consumer credit market, and the future. At a time when the cost of living is surging and the need for handling emergency payments is greater than ever, the impact of pawnbroking customers no longer having access to borrowed money via pawnbroking could be significant.

This chapter explores some potential avenues for policymakers to consider as areas for further investigation. As well as presenting pawnbroking customers' views on how the credit landscape could be improved, this discussion has been informed by an expert roundtable held in March 2022.

Providing lower and more flexible interest

Unsurprisingly, customers said that having access to lower interest rates or being able to spread the cost of interest over a longer period of time – both within the pawnbroking sector and the wider credit industry – would help to ease their financial worries.

“I would look at the interest rates for people with poor credit, it’s not always their fault and it’s not fair. There should be a fixed rate.”

“Small interest everywhere would help, but also paying back at a smaller interest to help spread the cost.”

“I think the government needs to crackdown more on credit. Interest rates, payday loans, those interest rates are so high and some people can’t access bank accounts for various reasons.”

Similarly, one roundtable attendee suggested “overlay services”, such as Request to Pay, and other flexible payment plans as a potential solution to people's cash flow problems. If businesses were to give customers better control of when they pay for services, it could provide a “much wider window” for meeting financial commitments.

Overhauling credit scores

Participants would also like to see a change in how credit scores are calculated, with the aim of making them more lenient and less enduring. Interviewees feel that poor credit history stays with them for a long time, sometimes taking several years to get to a point where their scores are sufficiently high. As described above, this is a significant barrier to people accessing more affordable forms of credit.

“If there is anything that could help it would be in terms of credit history, and being more lenient with people’s credit history.”

"I think that's the biggest problem, it's hard to get a loan with a bank now. If the banks were a bit looser, that would be better."

"It should be more accurate, and they should look at it case by case. If they could see I'm paying on time it could lead me to getting better APR, rather than using these other services."

At the expert roundtable, it was noted that, in order to allow people to more quickly repair their credit histories, credit score providers must rebuild their models. As one attendee put it, banks and other lenders are simply recipients of "very poor rating data", which is what credit decisions are based upon. The use of more idiosyncratic information which draws from a range of sources would be a better way of making an assessment on the creditworthiness of borrowers.

Giving more information and better financial education

Some interviewees spoke about the need for more information or better education on managing loans. Customers did not articulate what this would look like in practice, but they recognised the importance of trustworthy financial resources and strong financial capabilities in helping them to make better decisions. They looked back on past financial decisions wishing they had the appropriate knowledge to have better managed their previous finances.

"If I hadn't have taken out that loan and I'd looked at the bigger picture properly, not just the short term, I would have realised that paying back a massive chunk each week just isn't sustainable."

"I bought my car when I was 22. I was quite young and I didn't realise the importance of being on time every month. I think had I known how important credit history and having a good credit report was, I would have thought twice."

"My friend was in finance and said I could use an ombudsman if I needed to. When I had an overdraft, I wrote to them and they helped me freeze my interest. I don't think I would be able to do that now."

One way of providing better information to borrowers might be through embedding financial education into the digital platforms of banks, businesses, and lenders. According to one roundtable attendee, explaining to people how to build a routine of using credit can help them to move back into the mainstream: "I think it's those kind of market mechanisms or characteristics to the system that are valuable."

Keeping credit options open

Finally, interview participants spoke of simply wanting more options. In an environment where mainstream credit is elusive and its alternatives are expensive, access to credit can be hard to come by. As recent research by Demos has shown, it is people most in need of credit that have the greatest difficulty accessing it.⁶⁴ Widening the options available to them would therefore be of the upmost value to borrowers. Suggestions included making it easier for people to open new accounts, being more able to access 'safe money', and easing the problem of travelling to lenders when living rurally.

“It’s just making sure there are companies out there that can help people that don’t have good credit scores and loads of income. They are the people that need these things, because of income reasons.”

“Accessing ‘safe money’, money that people can manage and isn’t going to put them into further debt. It’s the long term solution, not the short term solution that works.”

“In Cornwall, there’s lots of villages where people are stuck. If they don’t have transport, they have to wait for buses which aren’t that frequent to access credit.”

As one roundtable attendee pointed out, borrowers' options need to be kept open as there are already few avenues for particular customers, whose options continue to shrink. Doorstep lending is reducing,⁶⁵ and as the rising cost of living starts to squeeze people's incomes it may become increasingly difficult for them to borrow from friends and family. Another attendee believed it will become more and more difficult for pawnbroking customers to regain their pledge, losing their routine item used to borrow and, as such, their main way of accessing credit.

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⁶⁵ <https://www.ft.com/content/c42c14de-883d-417c-a696-fd786c9246fa>.