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LENDING ON THE PAWNSHOP SERVICES MARKET

LOMBARD USŁUGI RYNKU KREDYTÓW

КРЕДИТОВАНИЯ НА РЫНКЕ ЛОМБАРДНЫХ УСЛУГ

Abstract

In the article, definitions of concepts 'pawnshop', 'market of pawnshop services' are given. The characteristic of financial services of pawnshops is carried out. Legislative and regulatory legal acts are described as a legal basis for the creation and regulation of pawnshops. The main indicators of pawnshop activities are analyzed. The grouping of the share of the first pawnshops (TOP) by the volume of financial loans and their assets was carried out. Advantages and disadvantages of lombard crediting are given.

Key words: *pawnshop, market of pawnshop services, mortgage, financial loan, property.*

Streszczenie

W artykule podano definicje pojęć lombard, rynek usług lombardowych. Charakterystyka usług finansowych lombardów jest przeprowadzana. Prawne i prawne akty prawne są określane jako podstawa prawna dla tworzenia i regulacji lombardów. Analizowane są główne wskaźniki aktywności lombardu. Dokonano grupowania udziału pierwszych lombardów (TOP) według wielkości pożyczek finansowych i ich aktywów. Podano zalety i wady kredytu lombardowego.

Słowa kluczowe: *lombard, rynek usług lombardowych, kredyt hipoteczny, pożyczka finansowa, majątek.*

Аннотация

В статье приведены дефиниции понятий ломбард, рынок ломбардных услуг. Осуществлена характеристика финансовых услуг ломбардов. Охарактеризованы законодательные и нормативно-правовые акты как правовая основа создания и регулирования ломбардов. Проанализированы основные показатели деятельности ломбардов. Проведена группировка доли первых ломбардов (TOP) по объему предоставленных финансовых кредитов и их активов. Приведены преимущества и недостатки ломбардного кредитования.

L. Akimova, A. Lysachok

Ключевые слова: ломбард, рынок ломбардных услуг, залог, финансовый кредит, имущество.

Statement of the problem in the general outlook and its connection with important scientific and practical tasks. Recently, the market for pawnshop services has been developing at a high pace, despite the insufficient stability of the economic situation in Ukraine. The crisis phenomena during 2015-2017, which negatively affected the banking sector and the market of credit unions, created favorable conditions for the development of the pawnshop business: when banks suffered losses, and credit unions gradually abandoned their activities, this segment of the financial market gained momentum. Experts explain such a tendency by growing needs of citizens in the urgent receipt of small loans.

Analysis of the latest research, where the problem started to be solved. The study reveals the need for lending on the pawnshop services market, which has already been of discussed in the works of N. I. Gavrilenko, N. V. GavriloVA, S. M. Esh, V. P. Ilchuk, O. M. Ishakova, N. I. Makhova, V. O. Onishchenko, O. V. Parandy, E. M. Sich, I. S. Shapoval.

Exposition of the main research material with the full justification of the received scientific results. Taking into account that under today's economic conditions, public confidence in banks tends to be declining, and citizens urgently need insignificant amounts of money for short periods. For the population, the form of lending as loans from pawnshops is one of the simplest and most convenient, and therefore it proved to be stable in the competitive struggle with banks and credit unions.

According to Art. 1.1. "Regulation on the procedure of financial services provision by pawnshops", a pawnshop is a financial institution, the exclusive activity of which is to render financial loans to individuals at their own risk at the expense of their own or borrowed funds, under pledged property for a specified term and under interest, and the provision of accompanying pawnshop services. In addition, the Regulation defines a list of activities of the pawnshop, requirements

to the pawnshop for the provision of financial services and the bookkeeping and registration system of the pawnshop [9].

According to the experts' latest estimates, the pawnshop is a business with a high profitability of about 30-40%. Investments in this business are being redeemed within two to four years. The risk of credit funds non-repayment is minimized, since money is issued only on bail and in the amount of 50% to 90% of its estimated value [2].

The market of pawnshop services is a system of economic relations that arise in relation to the sale and purchase of a specific product "pawnshop services", in the process of meeting the public needs for lending against the pledge of movable property. This market is formed under the condition of plurality of persons who need loan resources [5].

The legal basis for the establishment and regulation of pawnshops' activity is carried out on the basis of legislative financial and legal acts, among which:

- The Constitution of Ukraine;
- Codes of Ukraine (Civil, Economic);
- Laws of Ukraine ("On Financial Services and State Regulation of Financial Services Markets", "On Collateral", "On Entrepreneurship");
- Resolution of the State Commission for Regulation of Financial Services Markets of Ukraine ("On Approval of the Regulation on the Procedure for the Provision of Financial Services by Pawnshops")

The Constitution of Ukraine regulates relations in the field of management. In accordance with Art. 42, in particular, the State provides protection of competition in entrepreneurial activity. Abuse of a monopoly on the market, unjustified restriction of competition and unfair competition are not allowed. Types and boundaries of a monopoly are determined by law [6].

The Civil Code of Ukraine (hereinafter – CCU) regulates personal non-property and property relations (civil relations), based on legal equality, free will, property independence of their participants. Art. 967 of the Law states that the pawnshop is obliged to

insure in favor of the depositor at his own expense the things taken into storage, that is based on the full cost of their assessment. Art. 968 CCU states that the thing that the borrower did not pay for back at the pawnshop after the expiration of three months from the date of expiry of the storage contract may be sold by the pawnshop in accordance with the procedure established by law. From the sale of things, the payment for storage and other payments to be made by the pawnshop are deducted. The balance of the proceeds is returned to the depositor [11].

Art. 1 of the Commercial Code of Ukraine (hereinafter – CCU) defines the basic principles of business in Ukraine and regulates economic relations that arise in the process of organization and implementation of economic activity between economic entities, as well as between these entities and other participants in the field of economic relations. According to Art. 333, insurance in the sphere of economic activity is activity aimed at covering long-term and short-term risks of economic entities using savings or without a credit and financial system [1].

In accordance with the Law of Ukraine “On Financial Services and State Regulation of Financial Services Markets”, Art. 1 states that a financial loan is a loan granted to a legal entity or an individual for a specified period and under interest [4].

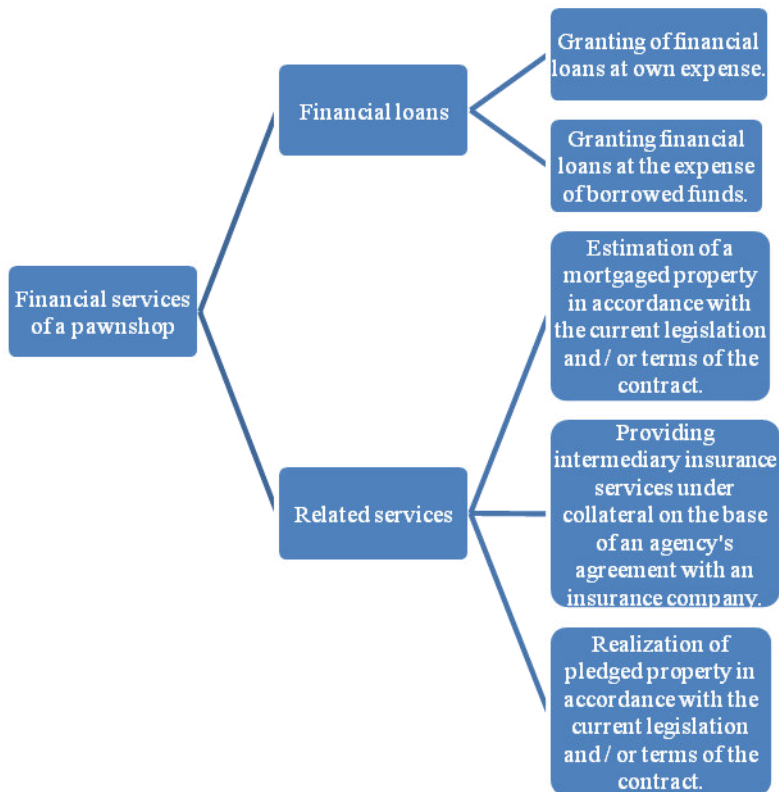
In addition, Art. 48 of the Law of Ukraine “On mortgage” has to be taken into account. If a mortgagee is a pawnshop or other organization for which the provision of loans to citizens is a subject of its activity, exemption from liability may take place only

on condition that the mortgagee has evidence that the loss, shortage or damage to the object of the institution occurred due to force majeure [2].

According to the Law of Ukraine, Article 4 states that activities related to the protection of certain particularly important objects of the right of state property, the list of which is determined in the order established by the Cabinet of Ministers of Ukraine, as well as activities related to the conduct of forensic, forensic medical, forensic psychiatric examinations and the development, testing, production and operation of missile carriers, including their space launches for any purpose, may only be carried out by state enterprises and organizations, and pawnshops - as well as full partnerships [3].

Microcrediting through the network of pawnbrokers is carried out exclusively for consumer purposes. However, this kind of lending is much more expensive, compared with banking. Credit unions and banks strengthened competition with pawnshops by introducing a system of fast consumer lending. However, the advantages of pawnshops are the speed of loans and the simplicity of the procedure for issuing a loan. The terms of granting loans by pawnshops are the simplest in the financial market. The risks are relatively insignificant, since pawnshops provide loans secured by highly liquid assets.

In accordance with the aforementioned legislation of Ukraine, the financial services of pawnshops include the provision of financial loans to individuals at the expense of their own and borrowed funds, as well as of certain related services (Fig. 1).



Source: Created by author on the base of [9]

Fig. 1. Pawnshop's financial services

The demand for pawnshop services is constantly increasing, which contributes to increasing the number of data subjects on the market. This is evidenced by the data of reports of the National Commission, which

carries out state regulation in the field of financial services markets. We suggest to consider the dynamics of the main indicators of the activity of pawnshops (Table 1).

Table 1. Basic performance indicators of pawnshops

Indicator	30.09.2015	30.09.2016	30.09.2017	Growth rates			
				30.09.2016/ 30.09.2015		30.09.2017/ 30.09.2016	
				Absolute	%	Absolute	%
Number of registered establishments	479	467	427	-12,0	-2,5	-40,0	-8,6
Amount of collateralized financial loans granted, (mln.UAH)	9753,6	12 275,7	12 308,2	2 522,1	25,9	32,5	0,3
Amount of collateralized financial loans, (thousand)	8527,5	8 865,3	9 108,7	337,8	4,0	243,4	2,7
Amount of repayment of financial loans (mln.UAH) including:	9349,8	11 939,0	12 254,4	2 589,2	27,7	315,4	2,6
Repayment due to property pledged	718,2	1 361,5	1 639,4	643,3	89,6	277,9	20,4
Number of contracts repayable at the expense of property in pledge, (thousand)	966,4	878,9	1 098,6	-87,5	-9,1	219,7	25,0

Source: Created by the author on the base of [8]

From tabl. 1, we can see that due to the information of 30.09.2017, data about 427 pawnshops are included into the State Register of Financial Institutions, which is by 40 institutions (or by 8.6%) less compared to the corresponding date of 2016 (467 pawnshops due to the information of 30.09.2016). These table indicates an increase in total lending on the pawnshop services market during 9 months of 2017 compared to the previous year. Indicators such as the amount of collateralized financial loans and the amount of repayments of financial loans increased by

0.3% and 2.6% respectively, whereas the number of secured financial loans increased by 2.7%. The indicator of the number of contracts redeemed at the expense of property rendered on a pledge increased by 25.0%. The average annual interest rate on financial loans of pawnshops for 9 months of 2017 comprises 192.6% (for 9 months of 2016 -189.2%).

We suggest to consider indicators of the financial state, which best characterize the market of services provided by pawnshops (Table 2).

Table 2. Financial state indicators of pawnshops

Indicator	As of 30.09.2015	As of 30.09.2016	As of 30.09.2017	Growth rates 30.09.2017/ 30.09.2016	
	mln. UAH			Absolute	%
Accounts receivable, incl. (mln. UAH):	1 812,8	2 627,6	2 763,6	306,1	12,5
for granted financial loans, (mln.UAH)	1 321,9	1 614,0	1 578,1	43,5	2,8
for accrued interest on the granted financial loans, (mln. UAH)	43,1	57,6	57,2	9,5	19,9
Statutory capital, (mln.UAH)	912,2	1 173,8	1 294,0	303,7	30,7
Reserve capital, (mln.UAH)	23,4	43,7	51,9	8,7	20,1
Retained earnings, (mln.UAH)	361,7	461,7	481,0	84,7	21,4
Equity, total, (mln.UAH)	1 192,0	1 405,5	1 590,5	277,7	21,2
Funds attracted on a fee and free basis, (mln.UAH)	202,9	182,0	170,0	-10,3	-5,7
Assets on balance sheet, (mln.UAH)	2 254,1	3 234,6	3 493,9	506,3	16,9

Source: Created by the author on the base of [8]

According to the data of the table, the volume of pawnshops' assets increased by 16.9% (UAH 506.3 million) compared to the same period of the previous year and as of 30.09. 2017 it comprises UAH 3493.9 million. The pawnshops' equity capital is UAH 1590.5 million, which is 21.2% (UAH 277.7 million) more than as of 30.09.2016. As of 30.09.2017, retained earnings amounted to UAH 481.0 million, as compared to the corresponding period of 9 months of 2016, it increased by 21.4% (UAH 84.7 million). The volume of receivables as of 30.09.2017 increased by 12.5% (to UAH 306.1 million) compared to the corresponding period of the previous year.

As of 30.09. 2017, reserve capital and authorized capital increased by 20.1% and 30.7% respectively, compared to the same date for the 9 months of 2016 and, accordingly, amounted to 51.9 and 1 294.0 million UAH.

It is also worth considering the type of lending as a mortgage. In accordance with the Law of Ukraine “On the Pledge”, it is stated in Art. 1 that mortgage is a way of ensuring obligations, unless no other forms are provided by law. The volume of financial loans provided by types of collateral is presented in Table 3.

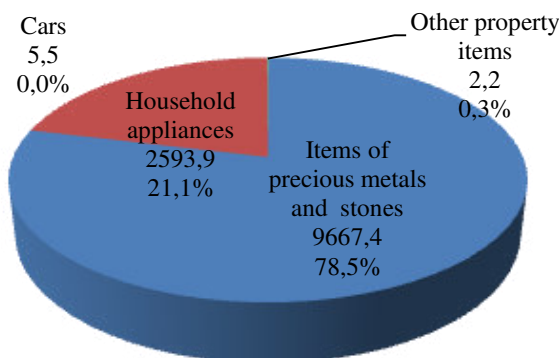
Table 3. Amount of financial loans granted by types of collateral

Types of collateral	Amount of financial loans provided, mln. UAH			Structure of the granted financial loans,%			Growth rates			
							30.09.2016/ 30.09.2015		30.09.2017/ 30.09.2016	
	30.09.2015	30.09.2016	30.09.2017	30.09.2015	30.09.2016	30.09.2017	mln. UAH	%	mln. UAH	%
Items of precious metals and precious stones	8 378,9	10 084,5	9 667,4	85,9	82,1	78,5	1 705,6	20,4	-417,1	-4,1
Household appliances	1 340,1	2 156,5	2 593,9	13,7	17,6	21,1	816,4	60,9	437,4	20,3
Cars	18,5	6,6	5,5	0,2	0,1	0,0	-11,9	-64,3	-1,1	-16,7
Real estate	1,6	6,4	2,2	0,02	0,05	0,02	4,8	300,0	-4,2	-65,6
Other property items	14,6	21,8	39,2	0,1	0,2	0,3	7,2	49,3	17,4	79,8
Total	9 753,6	12 275,8	12 308,2	100,0	100,0	100,0	2 522,2	25,9	32,4	0,3

Source: Created by the author on the base of [8]

From the table above, we can see that within the 9 months of 2017, the structure of financial loans granted as a whole has not changed. At the same time, with a general increase in lending volumes (0.3%), the share of granted financial loans secured by precious metals and precious stones (from 82.1% to

78.5%) as well as household appliances (from 17.6% to 21.1%) has changed a bit. The structure of loans granted by types of collateral as of 30.09.2017 is presented in Fig. 2.



Source: Created by the author on the base of [8]

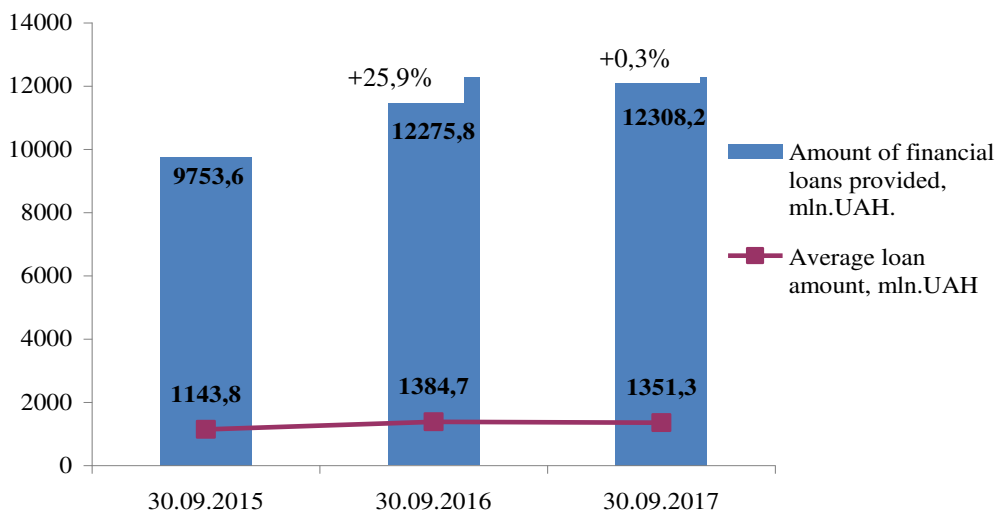
Fig. 2. The structure of loans granted by types of collateral as of 30.09.2017

Pawnshops choose the most liquid assets for the mortgage. As to the granted financial loans according to collaterals, the largest share is constitute financial loans secured by precious metals and precious stones – 78.5% (UAH 9667.4 million). Compared to 30.09.2016, this indicator decreased by 3.6% of the total volume of loans granted.

The granted financial loans secured by household appliances for the 9 months of 2017 increased by 20.3% (UAH 437.4 million)

compared to the corresponding period of 9 months of 2016. The volume of financial loans secured by cars decreased by 16.7% (UAH 1.1 million), as well as the volume of financial loans secured by real estate showed a decrease by 65.6% (UAH 4.2 million).

It is also worthwhile to trace the dynamics of the granted loans volume and the average loan amount for the 9 months of 2015 - 9 months of 2017 (Fig. 3).



Source: Created by the author on the base of [8]

Fig. 3. Dynamics of volumes of granted financial loans and average loan amount for 9 months 2015-9 months 2017

Pawnshops remain one of the most conservative and stable financial institutions for individuals - they are aimed at small and short-term loans. Pawnbrokers provide mortgage loans, the average size of which for the 9 months of 2017 is 1,351.3 UAH. There was a notable tendency towards the volume increase of issued loans for 9 months of 2017

by 0.3%, while the average loan size decreased by 2.4%.

In our opinion, it is also important to show the grouping of the share of the first pawnshops (TOP) by the volume of granted financial loans and their assets as of 30.09.2017 (Table 4).

Table 4. Grouping of the share of the first pawnshops (TOP) by the volume of provided financial loans and their assets as of 30.09.2017

Grouping	Amount of collateral provided by financial loans		Balance assets	
	mln. UAH	part, %	mln. UAH	part, %
TOP 3	4 114,8	33,4	886,6	25,4
TOP 5	5 723,1	46,5	1 361,3	39,0
TOP 10	8 076,3	65,6	2 066,9	59,2
TOP 50	10 991,4	89,3	2 992,1	85,6
TOP 100	11 770,7	95,6	3 269,6	93,6
Total for the market	12 308,2	100	3 493,9	100

Source: Created by the author on the base of [8]

According to the data of Table 4, 100 pawnshops, being the first in granting financial loans (TOP 100), amount to 95.6% of total loans and 93.6% of total assets. At the same time, the share of 3 pawnshops, being the first in terms of granted loans, accounted

for 33.4% of the total volume of loans granted and 25.4% of all the assets of pawnshops. The distribution of sources for raising funds by pawnshopson a fee and royalty-free basis is presented in Table 5.

Table 5. Distribution of sources attracted by pawnshops of funds on a fee and royalty-free basis

Indicator	As of 30.09.2015		As of 30.09.2016		As of 30.09.2017	
	mln. UAH	part, %	mln. UAH	part, %	mln. UAH	part, %
Funds attracted on a fee and royalty-free basis, including:	202,9	100	182	100	170	100
from banks	86	42,4	70,2	38,6	59,4	34,9
from legal entities (except banks)	103,9	51,2	97,5	53,6	94,1	55,4
from individuals	13	6,4	14,2	7,8	16,5	9,7

Source: Created by the author on the base of [8]

The data in Table 5 indicate a decrease of total funds raised by 6.6% (by UAH 12 million) compared to the corresponding period of the previous year (up to UAH 170 million).

In the economic activity of pawnshops, the share of borrowed loans from banks is reduced by 3.7 pct. (up to UAH 59.4 million). The volume of borrowed funds from legal entities (except banks) in comparison with the corresponding period of the previous year increased by 1.8 percent (up to 94.1 million UAH). The share of borrowed funds from individuals increased by 1.9 percent (up to 16.5 million UAH).

It is also worth noting that, like other financial institutions, pawnshops show both advantages and disadvantages in their activities. Namely, the advantages of pawnshops' lendings are:

- You can get money quickly and without additional documents.
- The credit history does not affect the pawnshop's decision on lending.
- There are discounts and individual tariffs for regular customers.
- After the expiration of the contract, you can extend it; for this you will have to pay

interest on using the loan.

- It is possible to repay the loan at the end of the term or parts during its use over time [7].

However, one should not forget about the shortcomings of pawnshops' lending. In addition to the fact that a pawnshop loan faces considerable overpayment, it is not necessary to count on a large sum. The pawnshop's borrower will also not be able to avoid the fines that are due for the late repayment of the loan. In addition, because of another delay, the pawnshop can sell the mortgaged items, which may even not be reported.

Conclusions. Consequently, we can conclude that the number of pawnshops has been decreasing over analyzed the years, but the demand for them is high, as they quickly provide loans for the bail of precious metals and stones, home appliances. The interest rate is rather high. The policy of the NBU through the discount rate, credit activity of commercial banks and the state of real incomes of the population determine the dynamics of the volume of loans granted by pawnshops.

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