

IOU UK

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Foreword

Small, informal loans, or IOUs, are part of our everyday life. We cover the cost of a friend's cinema ticket, or borrow the price of our lunch in a restaurant to avoid splitting the bill. It's often just a few pounds here and there but, as this report reveals, once you add up these small amounts we owe each other billions of pounds each year.

When it comes to IOUs we have certain expectations as to how others should behave with regards to paying money back, or whether we should chase a small IOU that hasn't been repaid. Some of the people we spoke to for the research even felt that not following these unwritten rules can lead to uncomfortable conversations and even damage relationships.

In spite of this, the findings of the IOU UK report have revealed that we overwhelmingly like IOUs because they makes us feel like we can help the people in our lives that matter most to us. In fact we view the ability to borrow money as a sign of true friendship.

Paym, the new service from the Payments Council that allows people to send money using just a mobile phone number, could help to eliminate awkward conversations around forgotten IOUs. More than 30 million people can register and use Paym now, and by the end of the year the service will cover more than nine out of ten current accounts enabling us to easily pay people back anywhere, at any time.

This report provides a unique insight into informal lending and borrowing in the UK. It examines not only the size and scope of the IOU market but how we feel about lending and borrowing money between the people in our lives and the effect it has on our relationships. I hope you enjoy it.

Adrian Kamellard
Chief Executive
Payments Council

Chapter 1

How much and what for?

Paym is a great way to securely pay back friends and family – after all, what could be easier than paying money straight into their account using just a mobile number? This report was commissioned with that in mind, to understand a little more about the way money changes hands in the form of IOUs, how we behave when it comes to getting the money back (or not) and how Paym might make this easier.

It is 400 years since Shakespeare wrote the immortal lines, *Neither a Lender Nor a Borrower Be* in Hamlet, and it seems many modern Brits have shrugged off this advice when it comes to their friends and family.

Our research shows that across the UK £12.6bn is advanced in IOUs every year for things like coffee, lunch, cinema tickets, petrol or bills. Although these IOUs are usually for small amounts they can still result in awkward

conversation and chasing up of money. However, awkwardness isn't always the result and that is particularly true for the younger generation, whose informal loans can be an integral part of their busy social lives.

People exchange money informally in a variety of ways, sometimes with the express intention that it should be paid back. On other occasions, IOUs occur when covering the cost of a drink or a bite to eat for friends and family. This research has investigated both types of IOU, with our respondents revealing who they have lent to and borrowed from, how much the loan was worth, and what the money was for.

This report explores the amount of money owed, who we owe it to and what for. Over coming weeks, future sections will examine:

- The etiquette surrounding IOUs – looking at reassurances sought, acceptable time limits for repayment and the amounts we are comfortable to borrow
- The impact of IOUs on our relationships – examining why people are or are not happy to informally exchange money, and just who we rely on to help out with both household spending and leisure.

Quantifying IOU UK

The size of the IOU market in the UK is £12.6bn a year

This equates to every adult lending someone they know just under £5 every week

Most IOUs – 56% – are for family members

A significant proportion – 35% – are between partners (19%) and close friends (16%). The remaining 9% are spread across housemates, colleagues, neighbours and others

People loan money to friends, family members and other acquaintances for various reasons – from very small amounts (such as being bought a coffee or a bus fare) to more substantial loans (for things like bills or household costs). The amount of money in this informal IOU market in the UK is very large - £12.6bn, which equates to £255.81 lent by every adult each year in the UK – or £4.90 each week.

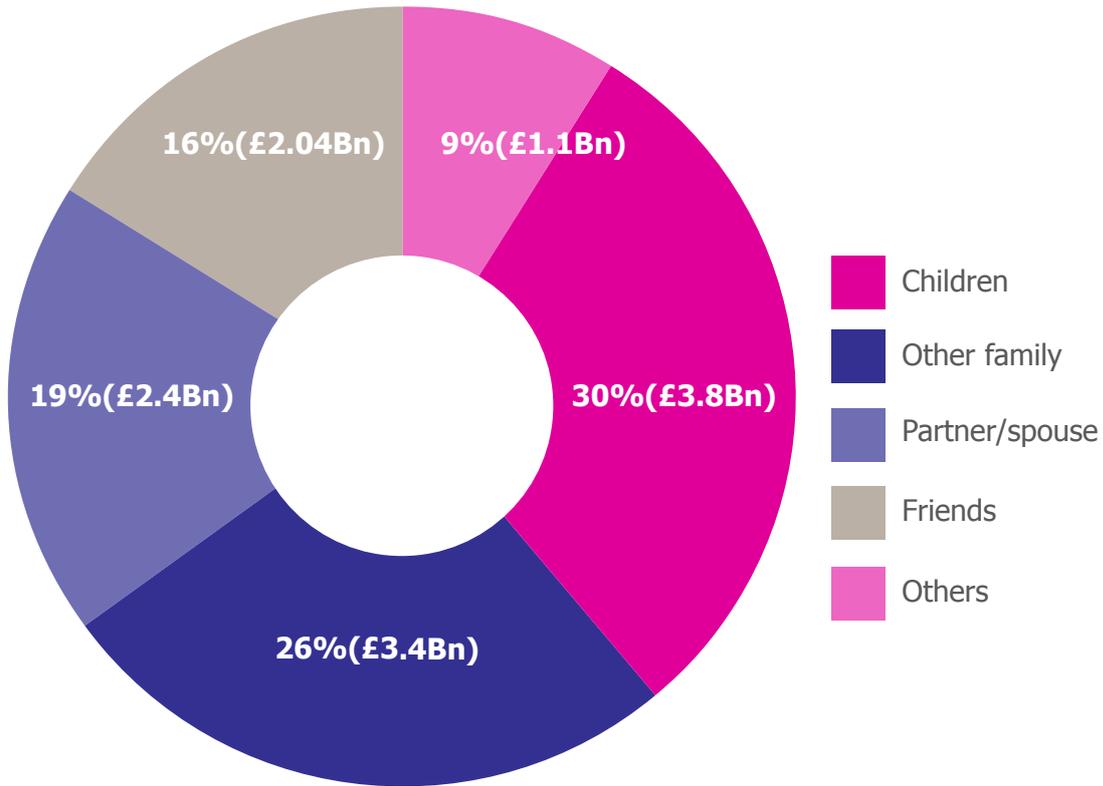
The £12.6bn lent by UK individuals to friends, family, colleagues and acquaintances every year adds up to any of these:

- 1.4 London Olympics, at £8.92bn each
- The value of the 10 biggest sports teams in the world
- 25.2bn tabloid newspapers, at 50p each
- 5.7bn medium cappuccinos, at £2.20 each
- 9.8bn litres of petrol, at £1.29 a litre
- 220m weekly food shops, at £56.80 each

The UK IOU market can be split across five distinct groups of people: children; family members; partner/spouse; close friends and others.



UK IOUs, by person



In total, 56% of IOUs are between family members. By far the single biggest component of this is parents lending to children – making ‘the bank of mum and dad’ worth £3.7bn a year, or 30% of the total. In comparison, loans to other family members including grandchildren or parents, siblings and wider family account for a further 26%. Friends also account for a very significant proportion – with 16%, or £2.04bn, lent between close friends.

“[Lending between friends] is probably more common than I thought. It’s like a pound here, a pound there, so you don’t really notice it.”

Male, 25-34, North East



How much and what for?

Close friends are most likely to lend and borrow in frequent, small amounts, usually on leisure occasions, such as covering the cost of a coffee or sandwich

Family lending is more substantial and for non-leisure related purposes – most often, helping out with household costs and bills

Housemates lend and borrow for the widest range of purposes both for leisure activities but also for household running costs and essentials

The purpose of the IOU and the size of it can vary widely depending on who is involved and what sort of spending or purpose the loan is for. This can also vary widely depending on where in the UK people live. Londoners are more likely than other regions to borrow most from each of the following groups: their close friends, partners, parents, siblings, acquaintances and colleagues.

IOUs and close friends

Leisure related IOUs – casual and informal spending on drinks, meals and transport fares – are most common between groups of friends, relating directly to the concept of 'social sharing' and the treats and favours culture that exists among younger consumers.

- 62% of 18-24 year olds have lent money to close friends for a drink in a pub or bar
- 41% of the same age group have lent friends money for a small meal
- IOUs for non-leisure spending are much rarer – only 11% of 18-24s have lent money to a friend to help out with bills

There are also some notable regional trends emerging from this data. Londoners, for example, are among the happiest to lend, leading the nation in lending to close friends, housemates, spouses and neighbours.

IOUs around the UK:

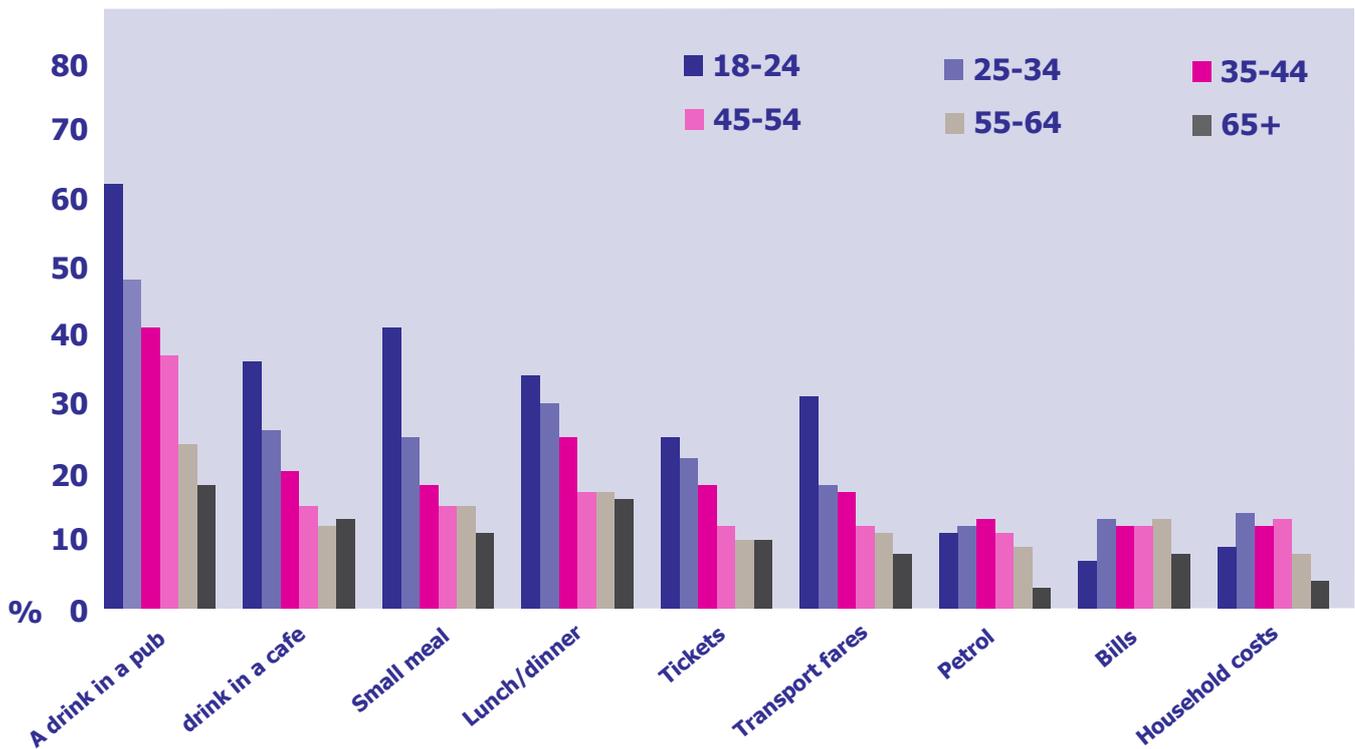
- 45% of Londoners say they have paid for a friend to have a drink...
- ...in Scotland, just 36% of lenders say they have done the same
- 25% of Londoners say they've paid for a friend's concert, theatre or movie ticket...
- ...but only 12% of lenders in the West Midlands say these types of IOUs exist between friends

IOUs within families

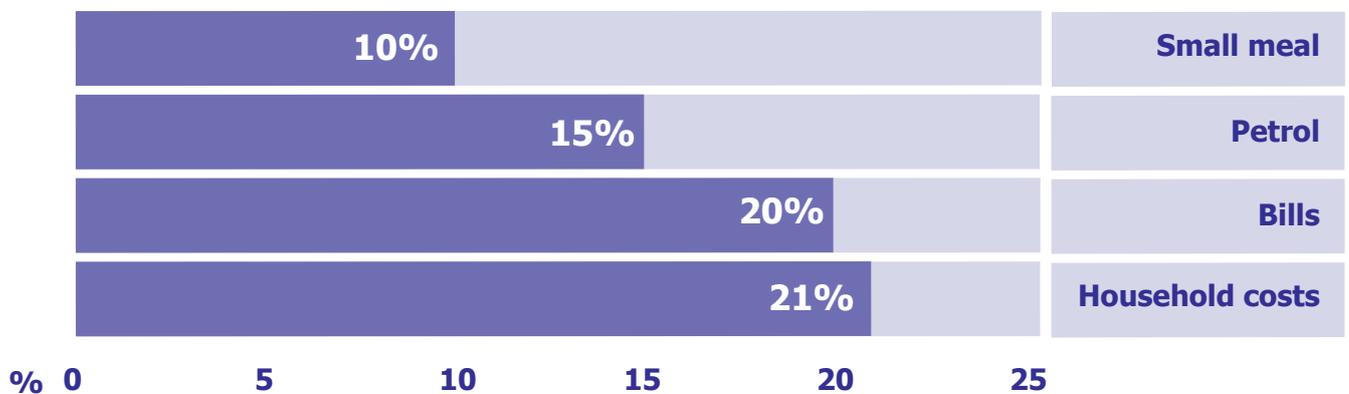
Within families, however, the nature of IOUs are very different and removed from casual or informal leisure spending. Just 10% of parents have lent money to their children for a meal.

When parents loan money to their children it is most likely to be for more substantial purposes – such as helping out with bills, household costs, and debt.

Lending to close friends, by purpose of loan and age



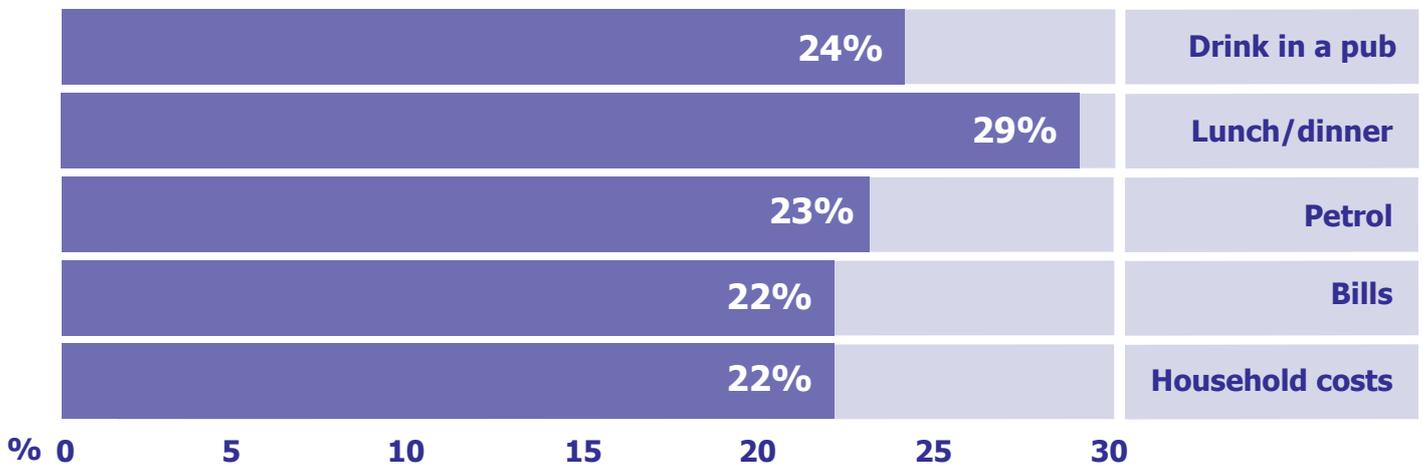
Lending to children (aged over 18), by purpose of loan



Although loans going the other way – i.e. parents borrowing money from their children – are less common overall, they are similar in purpose. When parents borrow money from their children it is unlikely to be for leisure purposes. The figures show 28% of people say they have lent money to their parents, and such loans account for around 12% of all money lent each year. The ‘bank of mum and dad’ is an established concept – and well supported by the data here – but this research has uncovered the ‘bank for mum and dad’, with children being called on to help out their parents.

One of the most common lending flows is between spouses and partners. In fact 45% of people who live with their partner or spouse have lent money to them.

Lending to partner/spouse, by purpose of loan



“Me and my partner just take it in turns [to pay for meals and other small expenses]. It’s kind of an unwritten agreement.”

Female, 35-44, West Midlands

“I lent my boyfriend £10. It’s only £10 so I wouldn’t bother asking him what it’s for, but if it was £50 that would be different.”

Female, 25-34, Wales

It seems that the closer the relationship, the more people are comfortable lending and borrowing.

- Among close family and within couples, loans are much larger – 44% of people who have lent their spouse money have lent over £200 in the previous six months
- However, just 7% of lenders have lent over £200 to colleagues in the same period

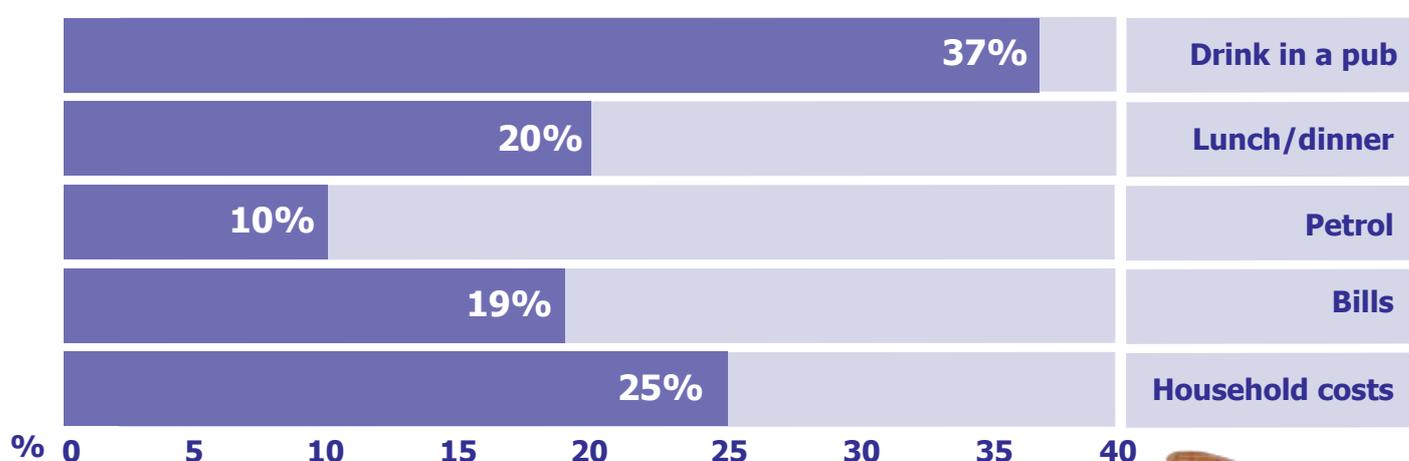


IOUs between housemates

IOUs between housemates are mainly the domain of younger people, reflecting both their cultural propensity for lending and their life-stage. However, unlike IOUs between friends, lending between housemates is common for both leisure purposes and practical spending.

- 58% of 18-24 year olds have lent to housemates for a drink in a pub or bar
- 28% of the same age group have lent to cover household costs

Lending to housemate, by purpose of loan



The fluid lending patterns between housemates indicates that there is no firm barrier in who we feel comfortable approaching for loans or favours provided the relationship is close enough. One woman we interviewed described two loans she made to her flatmate within a week – one for food shopping (a practical loan), and another for a trip swimming (a leisure related loan). She described herself as happy to lend because: “if you do the shopping, you just keep the receipt and [they] transfer it... I go swimming every week with my flatmate. I live with him so I know I’ll get the money back.” (female, aged 18-24, East Midlands).



The psychology of IOUs

People identify themselves as being predominantly lenders rather than borrowers

Except when it comes to relationships with parents and grandparents when people then self-identify as borrowers

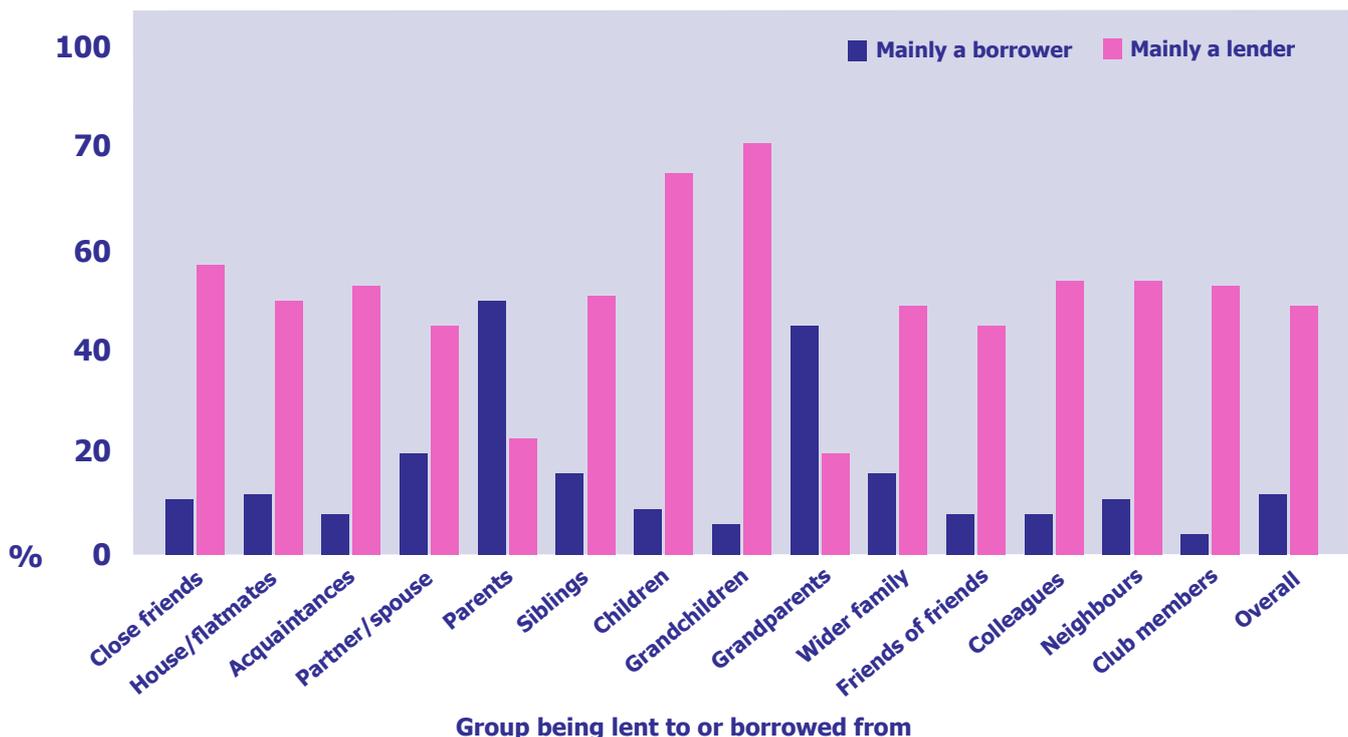
Younger people are far more likely to identify as borrowers

Our research asked respondents to self-identify as 'mainly a lender' or 'mainly a borrower' against a series of relationships (partner, close friends, parents etc), as well as in overall terms. In the chart below, the research asked respondents to say whether among different groups they were primarily lenders or borrowers.

We found that when it comes to IOUs people are four times as likely to identify as lenders of IOUs rather than borrowers.

Just 12% say that overall they mainly borrow from friends and family compared to 49% reporting that they mainly lend IOUs.

Within the following relationships, would you say you are mainly a lender or a borrower? (For example, thinking about your close friends, would you say that, on balance, you would be more likely to be a lender or a borrower?)



People from the Midlands are most likely to identify as borrowers overall (14%), closely followed by Londoners. Those in Scotland are least likely to identify as borrowers (just 10%) but are also among the least likely to identify as lenders – suggesting that within the UK, Scots are the most likely to avoid IOUs completely.

In terms of age, younger consumers are the most likely to identify as borrowers – 21% of 18-24s think they receive more through IOUs than they give out, compared to just 6% of 55-64. But younger people are still more likely to identify themselves as lenders overall – 39% of 18-24s say that overall they are mainly lenders, compared to 61% of 55-64s.

One reason for the overall imbalance between perceptions of lending and borrowing may be our instinct for loss aversion – a psychological term used in economics that describes our innate reluctance to leave ourselves open to future losses – for example in the form of outstanding IOUs.



Conclusion

While this chapter of the report has highlighted the sheer scale of the IOU market in the UK today, it has also showcased some of the key dynamics and drivers within the overall market.

- IOUs and exchanges of money between families and friends adds up to £12.6bn every year
- There is a clear divergence between practical loans (for bills and household costs) and leisure loans (drinks, meals and tickets) in the purpose of the loan, the amount borrowed, and who we borrow from
- People typically go to friends for leisure loans, and family for practical loans
- But people who live together – either housemates or couples – lend and borrow for a mixture of reasons
- The only people we say we're more likely to borrow from than lend to through IOUs are our parents and grandparents.



Chapter 2

How to keep friends and borrow money

We previously uncovered exactly how much money is exchanged between friends, family and colleagues every year and what types of spending that money is for. Now we will shed light on the unwritten rules that accompany these informal IOUs – the questions we ask (and don't ask) when lending and borrowing, how much it's acceptable to borrow and how quickly we should pay it back.

This research reveals the 10 dos and don'ts of informal IOUs, which should be followed by all keen to observe good 'etiquette' when lending and borrowing.

As we've seen, IOUs between friends, family and others are common – amounting to £12.6bn a year. With such a high volume of these IOUs

occurring every week, the chance of a lender or borrower not observing the guidelines from time to time is high and the impact this can have on relationships should not be underestimated. A majority of people (62%) say that lending and borrowing can lead to arguments – reinforcing the need to practise good IOU etiquette. Of course, when the conventions and courtesies are upheld, IOUs between friends can be hugely beneficial – nearly two thirds of respondents (62%) agree that being able to borrow money is 'a sign of true friendship'. The real impact of IOUs on our relationships will be examined in more detail in the third and final section of this report.

Conventions and courtesies

63% want to be told what the money is for when lending – and 76% of us wouldn't lend if we didn't approve

IOUs should always come with an agreed return date – but responsibility for agreeing this lies with the borrower

Consumers can view money they've lent as 'theirs' – but don't always feel they can ask for it back

Our research has found a number of common conventions and standards that we expect to be upheld when exchanging money through IOUs between family and friends. When lending money, nearly two-thirds of us (63%) expect the other person to tell us what they need it for and more than three quarters of people (76%) wouldn't lend the money if they didn't approve.

The implication is that when lending money we still feel some sense of ownership of it, as if by extension, the borrowers are spending the lender's money rather than their own. One of the survey respondents confirmed this view, saying: "it's my money, at the end of the day" As the statistics above demonstrate, in terms of being a 'good borrower', consumers should be completely open about what they need the money for.

Another common courtesy expected with informal IOUs is some assurance of when it will be paid back, either in cash or in kind. Most consumers – some 93% – agree that it's important for a borrower to give this assurance when the money is lent. However, even though lenders expect this courtesy to be observed, nearly half (44%) have said that they would lend someone money without putting a time limit on when it should be paid back. This suggests that although there are certain standards consumers expect when lending money, they do not feel as if they can impose them.

"I felt awkward [asking for it back] - but it's my money, at the end of the day"

Female, 25-34, Wales

Lenders regard asking for money back as sensitive and therefore shift the responsibility for agreeing the time frame on to the borrower. As with telling the lender what the IOU is for, the onus is very much on the borrower to uphold these conventions when practising good IOU etiquette. If the lender wants a time limit but doesn't feel able to impose one, the borrower should shoulder this responsibility.

"I wouldn't want [the lender] to remind me, that would be awkward. If you forget and they have to remind you - and maybe they think you did it on purpose."

Female, 18-24, East Midlands



IOUs and repayment

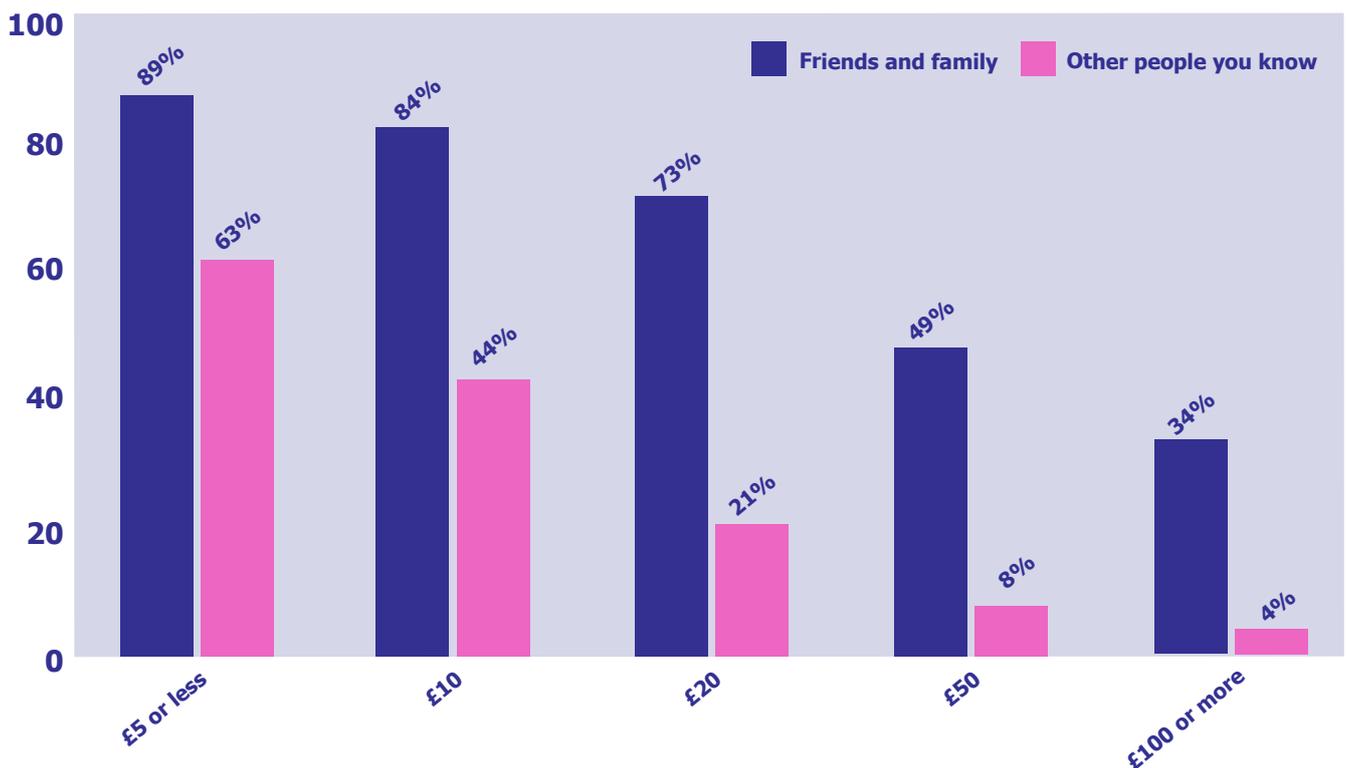
Consumers feel most comfortable with IOUs between close friends and family

If an IOU between friends and family isn't paid back, consumers will remind the borrower but keep it informal and casual

Many are happy to lend to other people they know – provided the IOU is a small amount

Consumers are most relaxed about lending to people they know best. Nine in ten (89%) say they would feel comfortable lending £5 to family and friends, although this drops as the values of the IOU increases (just 49% would be comfortable lending £50). Most people are comfortable with smaller IOUs within more distant relationships (such as colleagues or neighbours). Only a minority stay relaxed with amounts of £20 or more.

Chart: How comfortable do you feel lending different amounts to people? (all responding 1-3 on a scale of 1-10, where 1=very comfortable, and 10=very uncomfortable)





The closeness of the relationship also has an impact on how consumers are prepared to approach the potentially sensitive area of asking for an IOU to be repaid. Amongst family and friends, this sensitivity is less of an issue. In these circumstances, 84% of people would remind the borrower and 34% would insist the money was paid back 'soon'.

With more distant contacts, such as neighbours or colleagues, consumers are more likely to remind the borrower. Overall, 86% would remind the borrower, and 51% would insist it was paid back soon. In fact, 16% would insist on immediate repayment.

While most lenders are happy to remind people if the money hasn't been paid back, they are far more likely to adopt a causal, informal attitude when lending to close friends and family (meaning that although they'll remind the borrower, they often won't put a time limit on the repayment) They are far more likely to insist on immediate repayment when the IOUs are between more distant acquaintances, or people they don't know as well.

Younger people are the most likely to be persistent on unpaid IOUs. Although they are just as likely as other people to remind borrowers, they are more likely to insist that it is paid back either soon or immediately (41%, compared to 34% overall).



The IOU Do's and Don'ts: how to be a good lender and borrower

These 10 guidelines, or 'dos and don'ts', should help any consumer be a better lender and borrower when exchanging informal IOUs with friends, family and others. By following these tips no lender or borrower should ever need to doubt their IOU etiquette again.

Some tips, such as agreeing a payback date and trying not to be a repeat borrower, are straightforward, but others help clarify the greyer areas of how much it is acceptable to borrow from different people, and how much you shouldn't bother asking for back.

Tip 1: Do always agree a payback date at the time of the IOU

The borrower should let the lender know when they can pay the IOU back said 93% of people – but the responsibility for this lies with the borrower. Lenders don't always feel comfortable imposing a deadline.

Tip 2: Do always pay it back within a month

After a month, 21% of people would give up on an unpaid IOU – so it's important to have the loan repaid as soon as possible (even if a return date wasn't agreed), and never leave it unpaid.

The delayed repayment...

Every time Sanjay and Mike go to the gym, they pay £5 each to use the facilities, but this time Mike forgets his wallet and Sanjay pays his fee. Mike says he'll pay him back next time they go – but then misses the next two weeks. Three weeks later, when they both go again, Mike pays for Sanjay.

- 49% think Mike's actions are acceptable
- Just 14% think they are unacceptable
- 35% were undecided

Tip 3: Don't be a repeat borrower

Perhaps the most obvious guideline to follow – 83% of people say that if the same person asks to borrow money several times, they become less inclined to lend.

The repeat offender...

Maisie lives with three friends in a shared house. One week, Maisie is £20 short on her share of the rent, so her housemates agree to cover for her. The next week, Maisie is £20 short again, and asks her housemates to cover for her like they did last time.

- Only 4% think Maisie's actions are acceptable
- 67% think her actions are unacceptable
- 29% were undecided

Tip 4: Do keep IOUs from friends and family under £50

Most respondents are very comfortable lending and borrowing small amounts between friends and family – but only up to a certain amount. Although 73% feel comfortable lending £20, only 49% would feel the same about an IOU of £50 (and just 34% for amounts of £100 or more).

“I don’t like lending family and friends over £20, unless I know it is for stuff like food. And if it were over that amount I’d also arrange for it to be paid back.”

Male, 25-34, North East

Tip 5: Do keep IOUs from other people under £10

Most people are happy to lend small amounts to acquaintances, colleagues or neighbours, but only a minority feel comfortable with IOUs of more than £10.

“I kind of forgot about [the IOU], but now I will remind him again. It will be very awkward because it has been over a week.”

Female, 18-24, East Midlands

Tip 6: If it’s under £5, don’t ask for it back

Consumers believe there are limits on how much it’s acceptable to ask for back – depending on the overall size of the IOU. Among family and friends, the limit is £5 – more than half of consumers (52%) wouldn’t ask for an IOU made to family and friends back if it was five or under – and 27% said the same of £10.

“Anything more than £10 I would ask for it back. If it’s under, as long as they’d say ‘I’ll pay you back’ I wouldn’t mind”

Female, 35-44, Yorks and Humber

Tip 7: Do tell the lender what the IOU is for

Most people agree that a borrower should tell the lender what the IOU is for, and that as a lender, they wouldn’t want to lend it if they didn’t approve. The implication of this is clear – borrowers should be completely transparent about IOUs.

“If it is something I do not approve of, like gambling, I would not be comfortable lending out money.”

Male, 25-34, North East

Tip 8: If you remember a forgotten IOU, do pay it back immediately

If you have forgotten the IOU, the most important thing is to pay it back as soon as you remember. Although 56% of consumers would remind the borrower (but not pay it back immediately), 38% said that if they remembered an unpaid IOU they’d pay it back straight away.

Tip 9: Do keep it informal and don't set time limits on friends

Most people would remind their friends and family if an IOU had gone unpaid – but almost half (49%) would keep it casual, and would remind the borrower but not put a time limit on it. Just over one in ten people wouldn't remind them at all (but most of these would make a note not to lend to them again).

The charity pledge...

Mel is running a marathon for charity, and her friend Michelle sponsors her £50. After the marathon, Mel asks for the money, but Michelle says she doesn't have any cash and will have to pay her it a week later, which she does.

- Only 7% think Michelle is in the wrong
- 63% think that asking to pay it back a week later was acceptable

Tip 10: Do keep a record of all your IOUs

Just over half of people say they keep a detailed record of any money they owe or are owed. Following this practical advice will help lenders and borrowers both manage their money and ensure they pay back on time.

"[My mum and I] have an ongoing list of what we owe, and who ever owes more just pays the person back. And it generally works out pretty even."

Female, 25-34, East of England



Conclusion

Friends, family and others lend each other money in the form of IOUs frequently. As the first chapter of this report revealed, these IOUs amount to £12.6bn a year. These loans can be hugely beneficial, reinforcing friendships and providing financial peace of mind, but a number of common courtesies need to be upheld to ensure that both the borrower and the lender are happy with the arrangement.

Our research has uncovered 10 unwritten rules, or dos and don'ts that cover every aspect of IOUs – from what questions the lender can ask to how much they should lend, and what to do if the IOU is forgotten or unpaid.



Chapter 3

Social sharing and the family impact of IOUs

Our previous research revealed that £12.6bn is exchanged between friends and family in the form of informal IOUs each year. It also uncovered the 'rules' of IOU etiquette. This chapter focuses on our attitudes to these IOUs – how easily and readily we commit to them, and who we depend on when needing to borrow.

Money is of course a sensitive subject for many people and, as our research shows, many of us are wary of mixing friendship and finance, 62% of respondents to our survey agreed that lending and borrowing between friends can 'often lead to friction and arguments' and 'that it is best avoided – as it can lead to problems'.

Young and old alike share concerns about the impact of IOUs on relationships, with more than 20% of all respondents agreeing that they have lost friends as a result of money lent or borrowed – with as many as 73% agreeing that informal borrowing can make them feel guilty.

However, the fact remains that many people are happy to lend through IOUs. Of these, 73% agreed the negatives were outweighed by the simple pleasure of helping others, 62% also agreed that being able to borrow money from someone is a sign of true friendship.

Furthermore more than 20% of our respondents – rising to 25% of women – stated that anxiety about forgetting to pay someone back was a barrier to them borrowing money (even when they needed it), and among those who try to avoid lending money 65% agree that their discomfort in asking for it back is a factor, with 25% claiming they often get short-changed by people.

One thing is clear; setting some ground rules when it comes to IOUs can make everyone's life easier.

It might even go some way to mitigate the fact that 80% of us agree that borrowing money from people is a sensitive subject and should be handled delicately (but you already knew that).

Lenders, borrowers and relationships

Motivations for lending are generally emotive and altruistic – with a streak of self-interest

But many barriers are also emotive – especially fear of a negative impact on relationships

Clarity on repayment terms is critical success factor in informal lending and borrowing

Age and wisdom don't necessarily go hand in hand, and the same can be said for age and a willingness to lend or borrow through IOUs. In fact, 18-24 year olds are six times as likely to feel comfortable borrowing and more than twice as likely to feel comfortable lending as those in the oldest (65+) age bracket.

Chart: willingness to lend/borrow, by age



Reasons to avoid IOUs can be divided into two broad motivations – a rational (and instinctive) concern to avoid financial losses and an emotional concern about the impact on our relationships.

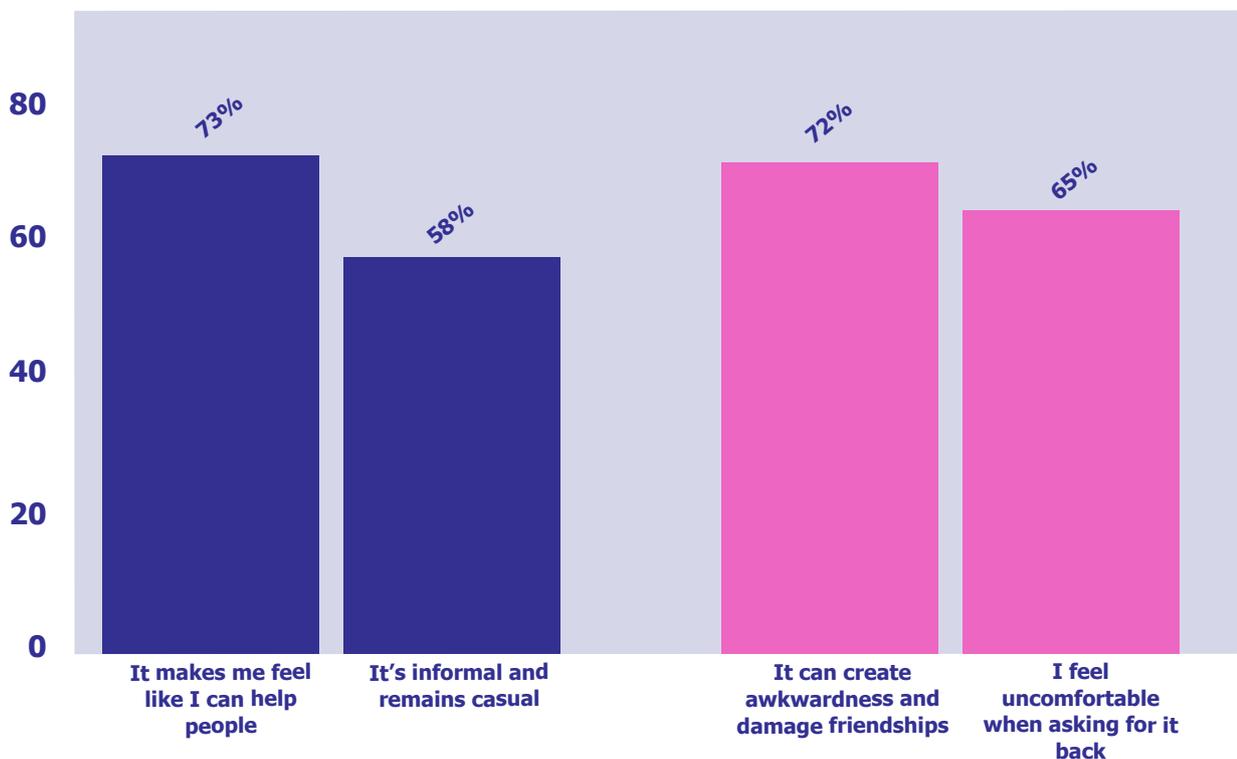
Financial reasons for avoiding IOUs – from not wanting to become reliant on them to concern about ending up out of pocket – are most likely to be cited by younger consumers. For many in this age group, this is an opinion borne of experience; more than half of 18-24 year olds (57%) express regret at lending money to people.

Despite this young people clearly appreciate the value of interpersonal lending. It is interesting to note, that 70% of 18-24 year-old respondents expressly agreed that knowing there are people they can borrow from makes them feel secure – recognising the importance of informal finance to individual well-being today. Overall, however, consumers’ main concerns are around the potential impact on their relationships.

62% of people who avoid lending do so because it can create awkwardness and damage their relationships, and 65% say it makes them feel uncomfortable if they have to ask for it back. These concerns clearly weigh heavily on consumers’ minds – especially those who have experienced first-hand the negative consequences of unpaid IOUs. This is a significant proportion of respondents: 21% say they have lost friends over money that has been lent or borrowed, a figure that rises to 25% among the 35-54 cohorts.

These emotional reasons for avoiding IOUs far outweigh the financial ones – which suggests that the main barrier to informal loans is not a lack of willingness to help the people we know and love, but rather a desire to protect our relationships with family and friends.

Chart: Reasons why you’re happy to lend (left columns) or unhappy to lend (right columns)





While many people have reservations about IOUs, there are also enormous benefits to be had from sharing money and helping out the people we know.

Nearly three-quarters of lenders say they like IOUs because it makes them feel able to help people. And almost two-thirds (62%) agree that being able to borrow money is a sign of true friendship. From help with household costs and bills to simply needing a short-term loan because a friend or colleague has left their wallet at home, consumers across the UK recognise the need and the benefits of informal IOUs between friends and family.

Younger consumers are the most relaxed about lending and borrowing – and the most likely to agree with positive statements about IOUs. For example, 37% of 18-24s say they're happy to lend IOUs because they like treating people to things.

But there is also an element of self-interest among this age group – 46% of them agree that one reason they're happy to lend (and borrow) is that they can ask for the favour in return.

Social sharers

Young adults are much more likely to lend and borrow than older generations

These IOUs are generally between friends and for leisure spending

For both lending and borrowing, reciprocity is assumed – a culture of sharing and IOUs

Young people report that they like to be able to help people

Who are the social sharers?

66% of people in the UK have lent money to a close friend, while 16% saying they lend money 'at least once a month'. Who are these 'social sharers'?

- **Predominantly female (60%)**
- **Generation Y (75% under 35, 42% under 25)**
- **Half in full time work (51%)**
- **Nearly a third are students (32%)**
- **Two-fifths are already settling in to family life (41% live with partner or children)**
- **More than a third live at university or with friends (35%)**

Lending money for social occasions is most prevalent among younger people – almost two-thirds (62%) of 18-24 year olds have lent money to close friends for a drink in a pub or bar.

While being most open to both lending and borrowing money generally, younger people are also different in the reasons why they're happy to lend and borrow. It is clearly part of a wider 'treats and favours' culture that recognises a need to borrow or lend money occasionally. This culture is encapsulated in the phrase **social sharing**.

"[IOUs are] common... we do it every few day, like a meal or a movie – we all take it in turns."

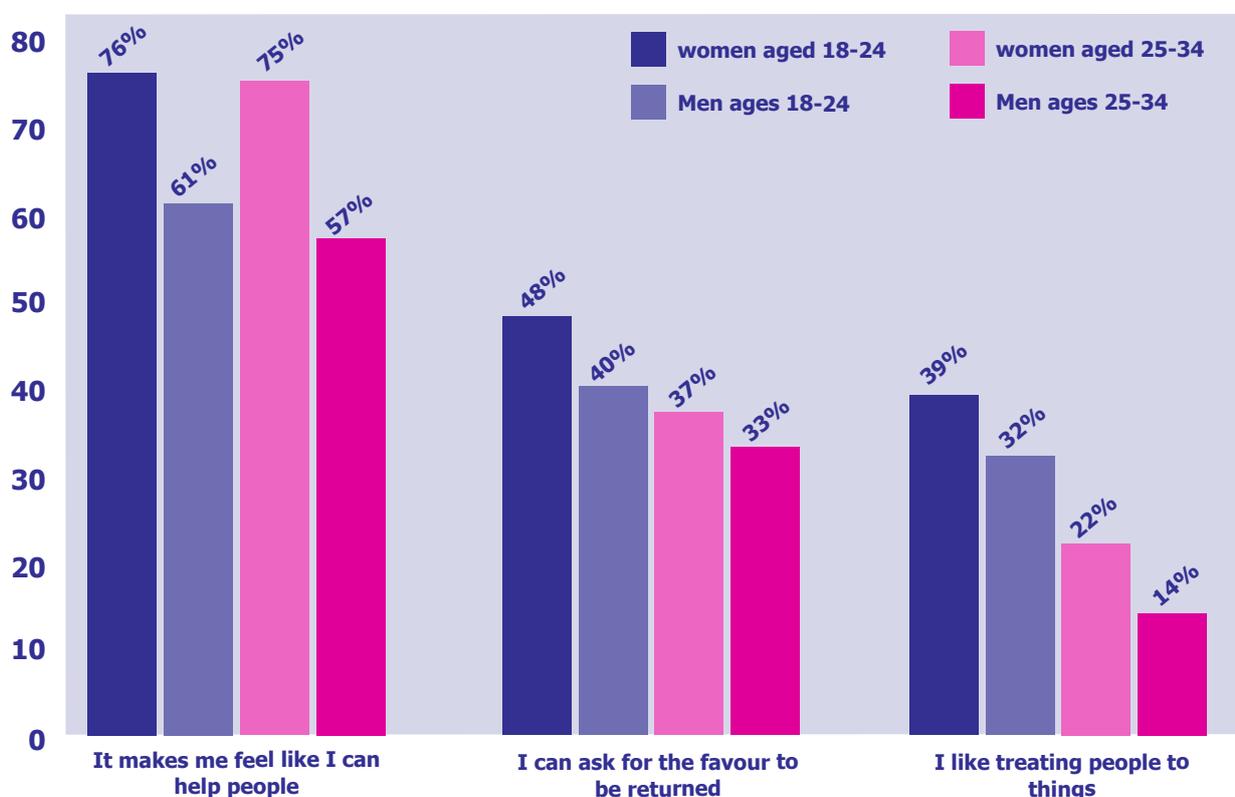
Female, 18-24, North West



Younger consumers aged 18-24 are far more likely to agree that they lend because they like treating people (37% v 26% on average) and that it means they can 'ask for the favour to be returned' (46% v 35% on average). Among the young, women are the main proponents of social sharing – young women are more likely than their male counterparts to agree that they like to lend because it is nice to help people and because they can ask for the favour to be returned in the future.

The social setting for many of these IOUs, combined with the fact that informal lending and borrowing are much more commonplace among younger people may help to explain why attitudes to repayment change with age. As an example, our research found that only 49% of 18-24 year olds strongly agreed that it's important for a borrower to tell the lender when they will be able to pay them back – that compares to 59% overall and a peak of 68% among 55-64 year olds.

Chart: Reasons for lending by gender and age



For many of the young, this ad-hoc social sharing is supported by familiarity with technology that can make repaying simpler. More than 60% of 18-24 year olds regularly use a smartphone to access the internet (Source: Payments Council Consumer Payments Survey), which opens the possibility of sending payments using online banking while on the go.

One student who participated in the research described a friend paying for a group meal – while everyone else at the table transferred him the money through a mobile banking app on their phones. The advent of Paym will make this type of quick repayment even easier, adding further peace of mind to any outlay by serving to reassure both parties (i.e. the lender and the borrower) that any debt can be repaid quickly and conveniently.

The bank for mum and dad – intra-family IOUs

IOUs from parents to children (the bank of mum and dad) amount to £3.7bn a year

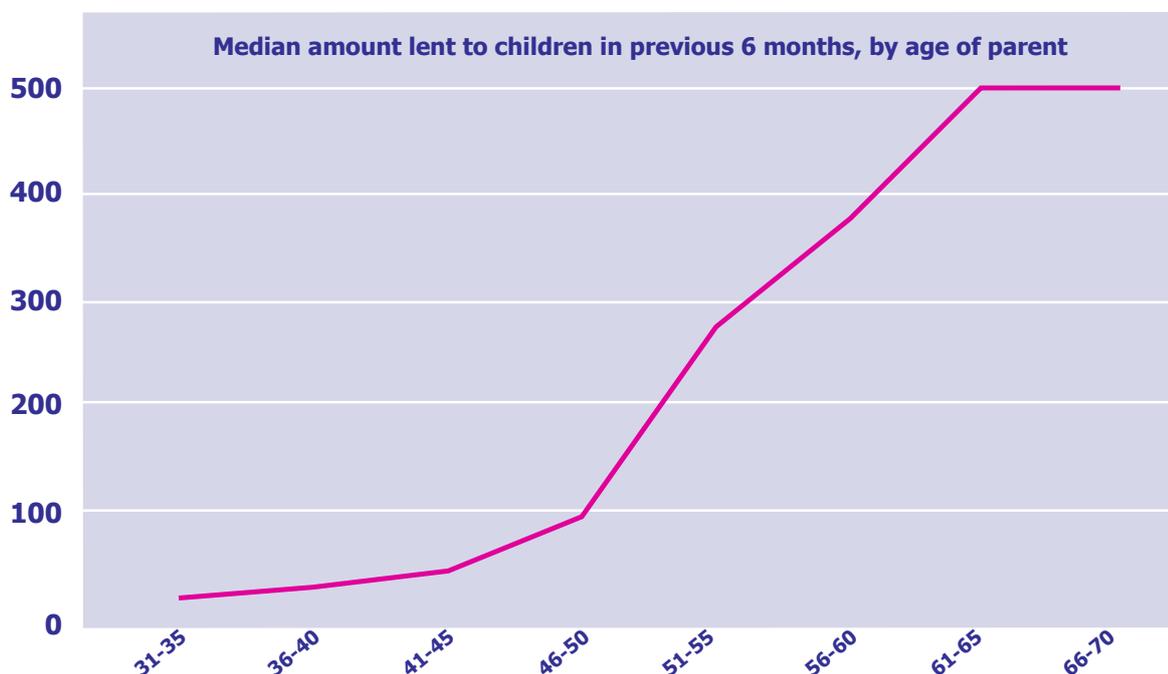
IOUs from children to parents (the bank for mum and dad) amount to £1.6bn each year

Both sets of IOUs are typically for practical help with life management or the cost of living

Overall, twice as many people feel comfortable lending money to their closest friends and family as would feel comfortable lending money to a wider circle of friends, colleagues and neighbours: 84% would be very comfortable lending £10 to the former – only 44% would be very comfortable lending £10 to the latter.

The gap is even larger when it comes to borrowing – reflecting our greater diffidence in borrowing money – with 64% feeling comfortable borrowing £10 from family – but only 27% would feel the same about doing so with a wider circle of friends, colleagues and neighbours. One of the most common types of IOU is parents lending to children. Our research reveals that 31% of people have lent money to their children at some point, making this the third most common type of IOU (people are only more likely to lend to their partner or spouse or their close friends than they are to their kids). As we revealed in Chapter 1, parental IOUs also account for the largest single groups of total lending – overall, parents lend £3.7bn a year to their children.

Chart: The bank of mum and dad



Other family lending is also a notable feature of IOUs. We lend £1.1bn a year to our brothers and sisters, with a further £480m lent to wider family. The amount we lend to our family each year is reinforced by our relative comfort in doing so.

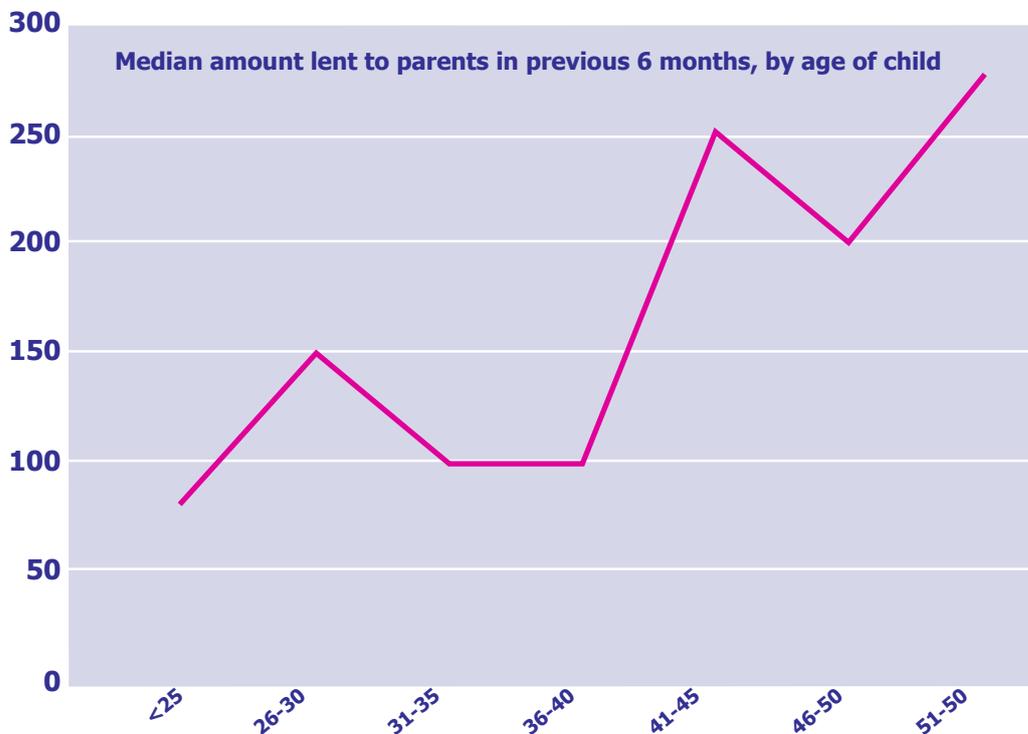
The emotional reasons behind why people are happy to lend and borrow money in the form of IOUs also reflects the nurturing family dynamic – our desire to foster a sense of belonging and our wish to help those we care about is perhaps never stronger than when family members are in need.

“[On helping out his kids] We’re a family. Families do things like that.”

Male, 65+, South West

IOUs from parents to children are a well-known feature of societal and familial bonds, often referred to as ‘the bank of mum and dad’. But our research uncovers a high volume and value of IOUs going the other way – from grown-up children to parents.

In total, these IOUs are hugely significant, adding up to £1.6bn a year. This remarkable statistic shines a light on a lesser known feature of intra-family IOUs, which can perhaps be dubbed ‘The bank **for** mum and dad’.



The types of spending these IOUs are for reflects the tendency for family IOUs to be largely practical in purpose. More than 1 in 4 (26%) children who have lent money to parents have done so to help out with household costs, and 22% have done so to help out with bills. That these IOUs are generally for financial help and support (rather than discretionary spending) underlines their importance.

Our research also uncovered evidence of IOUs that are driven by children wishing to make life as easy as possible for older parents. One example is of a son who described ordering a birthday present online for his parents to give to his sister – being more comfortable with ordering online, he made the purchase and was owed the money by his parents.

“I bought some music tickets for my sister’s birthday, to be given to her by our parents. We were discussing what to get her and it was just easiest for me to buy them online, and my dad paid me back.”

Male, 25-34, North East



Conclusion

Consumers in the UK are most comfortable with IOUs between the people they know best – close friends and family. The motivations for these IOUs are most likely to be emotional – we want to help people – and we are happy for any such loans to be informal and causal. Sometimes, there isn't even an expectation that they will be repaid.

At the same time, however, reservations about IOUs prevail for many – with our reservations as emotional as our motivations. The most common reason for avoiding IOUs is a feeling that they have the potential to damage relationships and cause awkwardness – and a fifth of all consumers say they have lost friends over an IOU gone wrong.

The issue of repayment underlines the tensions and sensitivities around informal IOUs. Significant

numbers avoid borrowing money out of fear of forgetting to pay it back promptly, even more have regretted lending money to people in the past, and among those lending money a high degree of discomfort with asking for the money to be paid back.

With such emotion wrapped up in the exchange of IOUs, it makes sense to understand the expectations of others in terms of repayment, as well as those we have of ourselves. Initiatives like Paym serve to make it easier than ever to settle up these informal little loans and so should help us to continue to enjoy the benefits of IOUs, with fewer of the downsides.

Methodology

The IOU UK report was commissioned by the Payments Council to support the launch of Paym. The report was produced by Trajectory, a consumer insight and futures consultancy, in March 2014. The supporting quantitative research was conducted online between 14th and 20th Feb 2014, with a total of 2,807 respondents. The qualitative research (20 minute telephone interviews with 20 respondents) were conducted between 3rd and 7th March. Before the telephone interview, respondents had completed a diary exercise to monitor their lending and borrowing behaviour, which was completed between 21st and 27th February 2014.