



Persatuan Pengguna Pulau Pinang Consumers Association of Penang

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Letter To The Editor

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BANKRUPTCY CASES AILS THE NATION

The Consumers' Association of Penang (CAP) is concerned about the number of Malaysians driven to bankruptcy or on the brink of it. More than quarter of a million people – 294,000 Malaysians to be exact – are involved in bankruptcy cases. It is largely attributed to their failure to settle their hire purchase loans, credit card loans, personal loans, housing loans and social guarantors (due to errant debtors).

According to a 2013 news report, most of those bankrupts were from the 35 to 44 (34 per cent) age group. It is worrying that some 22,663 Malaysians under the age of 35 have been reported bankrupt from 2011 to September 2015. They are supposed not to be smudged by bankruptcy particularly at this point in life when they are building their career and family.

It was found that the primary causes of bankruptcy between 2011 and 2015 are caused by defaulting loan payments, particularly on vehicle purchase loan (28,374 cases; 27.94 per cent); housing loan (21,697 cases; 21.36 per cent); personal loan (20,727 cases; 20.41 per cent); and business loan (11,899 cases; 11.71 per cent).

Car ownership in Malaysia is third highest in the world and the intent to purchase is the highest. It is nothing to crow about because, as revealed in the news report, one of four people driven to bankruptcy was caused by defaulting on vehicle-loan.

Many Malaysians also tend to live beyond their means, thereby making them vulnerable to being unable to repay their loan. This does not only happen to those taking loans to buy vehicles but for other purposes as well, such as taking personal loans to buy a house, or finance higher education. As a result of this they stretch their budget beyond their means.

As a means to encourage such cashless trend, Automated Teller Machines (ATM) cards have now included a 'debit card' feature thereby exposing a person to overspending unless he manages his expenditure and balance in his account well.

Aggravating the situation, there are about 3.6 million credit card holders in the country with a total credit card debt totalling at RM36.9 billion as in June 2017. There is little surprise that three out of five people preferred to use the credit card despite job and economic uncertainties because it allows a person to spend ahead of their earnings and the consequences can be disastrous.

Forced by circumstances, these people resort to taking up loans at financial institutions if they can but likely not because of their bad credit record. Hence they may turn to Ah Longs for loans. If they

approach Ah Longs for loans then they exposed themselves to a different set of problems such as high interest rate, harassment, and threat.

Besides those in the bankruptcy statistics, there are an estimated 100,000 civil servants who are at risk of going bankrupt in 2017. They would not be the first batch because as of 1 May 2017, about 3,000 of them had already gone bankrupt. The 100,000 who may soon turned bankrupts constitute 6.25 per cent of the estimated 1.6 million civil servants in the country.

The catalyst to the dire situation is the existence of more than 20 financial institutions and cooperatives providing loans to civil servants. Repayment of the loan is by means of deducting their monthly salary.

Although it is an easy way to safely recover the loan through automatic salary deduction, we have to acknowledge the fact that it encourages government servants to spend more than their means.

Unfortunately, these financial institutions and cooperatives often do not cross-check the background of their applicants. Therefore, an applicant who is eligible for a RM50,000 loan could apply from four financial institutions, ended up borrowing a total sum of RM200,000. Some applicants faked their salary slips to obtain loans that they are not qualified for.

The situation of civil servants having to take loans was blamed on the escalating cost of living. Although it might be true, they have to learn to live within their means because taking loans will only worsen the situation as they have to service the loan and the interest which has a cumulative effect.

Online shopping is another financial trap as consumers are able to make purchases easily and without the immediate feeling of upsetting their monthly budget. At the next pay day, they may just pay a minimum required by the bank and thus interest is charged on the balance that they owe while they continue on with their spending habit. Under such circumstances, they dig themselves deeper into a debt that they have difficulty in extricating themselves from.

Over-commitment is a major concern particularly when there are retrenchments. In 2016, 32,552 Malaysians were retrenched; and another 14,848 came under the Voluntary Separation Scheme (VSS). How are they going to service their housing and car loans when their future is uncertain? Financial institutions are certainly not sympathetic about their woes.

Some people are forced to take loans from Ah Longs to pay their debts rather than the prospect of becoming bankrupts. Certainly this is not a solution as the high interest rate is going to cause the debt to mount and Ah Longs will use threats and violence to get their money back. When this situation happens, it is going to break up families or push people to contemplate suicide.

The government amended the Bankruptcy Act 1967 (BA 1967) which is now known as the Insolvency Act 1967 (IA 1967). Under the BA 1967, a person can be made a bankrupt by owing a creditor a minimum of RM30,000 but IA1967 now raised it to a minimum of RM50,000. Although there will be fewer bankrupts by raising the amount owed before a person can be served bankruptcy papers, it is still not financially comforting to be on the verge to be one. With the amendments to the BA 1967, the Insolvency Department is working to release an estimated 50,000 persons from bankruptcy.

Nonetheless we are concerned about the spending pattern of Malaysians which is driving many of them to bankruptcy or to its brink.

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