



Persatuan Pengguna Pulau Pinang
Consumers Association of Penang
檳城消費人協會 பிளாங்கு பயனீட்டாளர் சங்கம்

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Letter to the Editor

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Bankruptcy: Tip Of The Iceberg

The Consumers Association of Penang (CAP) is concerned about the January to April 2022 bankruptcy statistics revealed recently are just the tip of the iceberg because of the Insolvency (Amendment) Act 2020 that took effect on 1 September 2021.

With the amendment, a creditor may file for bankruptcy action against the debtor if the debt amounts to RM100,000. The bankruptcy threshold was RM50,000 before the amendment. It means that if a debt did not exceed RM100,000, the creditor is unable to file for a bankruptcy action.

It is difficult to determine the number of debtors who owe amounts anywhere less than RM100,000 unless they reach out to agencies such as the Credit Counselling and Debt Management (CCDM) Agency which is under the purview of Bank Negara Malaysia.

As it is commonly known that a debt of even a few thousand ringgit is difficult to manage because a loan default will result in mounting interest, and in times of economic uncertainties, it is even tougher.

The government's reason to increase the bankruptcy threshold during the pandemic was to delay legal actions against defaulters.

Our question is, how is the government going to monitor the cases that are below the bankruptcy threshold? The objective is to reach out to these people and to assist them in managing their debt by promoting CCDM which undertakes credit counselling and loan restructuring for individuals.

Statistics show that there are people aged 25 and below being made bankrupt. However, there was a downward trend from 139 in 2018; 54 (2019); 21 (2020); 20 (2021); and 5, (January-April 2022). Even if there is a decreasing trend in 2022 for those aged 25 and below, it is probably linked to the increment of the bankruptcy threshold.

An average of 18 people of all ages were declared bankrupt daily in the first five months of 2022.

We will never know the actual number of debtors who are struggling below this bankruptcy threshold of RM100,000, just waiting for their accumulating interest to push them past that threshold.

The other apprehension is that about half of those who became bankrupt in 2022 were aged between 25 and 44 when they are in the prime of life, trying to build a career, and having to rebuild their credit and secure loans.

People have to understand that no company or financial institution can likely forget a debt owed to them and it is going to haunt the debtor even a few years later with added interest. We advise people who are unable to service a loan because of unforeseen circumstances to try prioritising their loan repayment or otherwise seek advice from CCDM for possible solutions.

The other common problem CAP received is people failing to update their current correspondence address and contact information with the financial institution where they took their loan. When they default in the repayment of their housing loans, for example, the financial institution might send them legal notices that they never receive until it is too late. We, therefore, urge people to take their loan issues seriously. Above all, they should practice thrift and avoid unnecessary spending.

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