

Be responsible consumers to avoid indebtedness

A Netflix South Korean drama series, Squid Game, released last year, epitomises the grim and harsh reality facing low-income groups, especially in relation to indebtedness.

Although a developed nation, some South Koreans still face barriers to earning higher disposable income due to soaring house prices, and limited upskilling and job opportunities.

With the persistent rise of food price inflation in Malaysia, Malaysians who reach the official retirement age of 60 eventually have to either deplete savings for survival or secure loans to start small businesses.

The **Department of Statistics Malaysia** stated that the latest Consumer Price Index increased moderately by 2.2 per cent, from 122.5 in February last year to 125.2 in February this year.

A concern is that main ingredients such as condensed and evaporated milk, vegetables, poultry, eggs and other food items are becoming more expensive.

An increasing worry is that, in addition to the latest Employees' Provident Fund's special withdrawal facility, Buy Now Pay Later (BNPL) and Touch n Go's GOpinjam schemes would make young Malaysians incur more debt.

BNPL is a type of financing allowing consumers to purchase first and pay afterwards without any interest fees imposed over a short-term period (that is, three or six months). GOpinjam scheme provides so-called "small" or "manageable" (uncollateralised) loans to low-income individuals and households.

Millennials and Gen Z who have just entered the job markets would be attracted to both as they could stretch payments into several months.

However, if customers could not pay within the specified timeframe, they have to pay additional penalty fee under BNPL. If they could not repay at all, BNPL companies may notify the debt collectors, eventually.

In his recent piece titled "Buy now, pay later schemes need regulation" in a local publication, Federation of Malaysian Consumers' Associations secretary-general Datuk Dr Paul Selva Raj revealed that 68 per cent of Malaysians opined that they are not saving enough; 52 per cent say they would have difficulty raising RM1,000 to face an emergency and 47 per cent admit to being excessively over-indebted.

Although the minimum qualifying monthly salary requirement under the GOpinjam scheme is RM800 and citizens aged between 21 and 63 can borrow from RM100 up to a maximum of RM10,000, some may find it hard to pay the accumulated interest of eight to 36 per cent per annum.

Hence, for Malaysians to manage their expenses wisely, Emir Research has recommendations for different stakeholders:

FOR THE GOVERNMENT:

EDUCATE and highlight to the public on financial easing schemes — the terms and conditions, especially the hidden costs and impact on consumers' financial prospects after cash withdrawals and borrowings;

One way would be to organise roadshows. Others include using short messaging system, social media, Facebook, as well as radio and television broadcasting;

ACT to incorporate financial literacy as part of the curriculum from primary school level. While teachers educate students on the differences between income, savings and expenses, parents should show good examples to their children by identifying what to spend first;

STIMULATE new employment by focusing on the M40 and B40 groups. Those who have lost jobs should receive support from employment services and reskilling programmes to help their entry or re-entry into work. After the training, the government should monitor their progress for a minimum of six months to ensure that the programmes have long-lasting positive effects;

INCREASE the statutory retirement age to 65 alongside the re-employment age to 67 as part of the long-term plan to accumulate retirement savings; and,

TIGHTEN supervision and regulation of schemes such as BNPL and GOpinjam. Bank Negara in cooperation with the Finance Ministry and the Securities Commission are formulating the Consumer Credit Act (2022) to bolster the regulatory framework for all consumer credit activities.

FOR BNPL AND GOPINJAM SERVICE PROVIDERS:

ENSURE consumers have access to a redress system in case of consumer-lender disputes before any action is taken on default; and,

BE transparent on late payment charges and consequences of late payments.

However, to conclude, citizens also have to be responsible in their personal finance management. In a nutshell, financial literacy is the responsibility of all.

<https://www.nst.com.my/opinion/columnists/2022/04/792084/be-responsible-consumers-avoid-indebtedness>