



## credit - when the poor pay more

**“Stripped and blackmailed”, “Still in debt to loan shark after repayment”, “Couple and son die after taking paraquat”.** These are recent headlines from Asian newspapers. Asia is into credit in a big way but without the necessary legal and institutional framework to see orderly development of the credit market.

Consumer credit is defined as short-term loans to individuals for the purchase of goods used primarily for personal, family, or household purposes. Essentially, it permits a better standard of living by providing flexibility to money management. It provides safety and convenience, and tides people over emergencies.

Increasingly, it is highlighted as an important part of macroeconomic management in Asian states. The promotion of savings, an Asian characteristic embedded in local culture and realities, appears to have been abandoned in favour of increased consumer spending. Consumer credit is no longer frowned upon; it is promoted for economic welfare. South Korea for instance even provided tax incentives to spur credit card usage. According to the Financial Supervisory Service, an industry watchdog in South Korea, in 2001 alone, Koreans used credit for \$339.4 billion of purchases and cash advances, nearly double the spending in 2000. Japan's 126 million people use an astonishing 222.3 million credit cards.

Not only has there been a change in government attitudes to consumer credit. There appears to have also occurred a fundamental shift in consumer attitudes towards personal borrowing and spending. The once embarrassed borrower from the local moneylender and pawnshop is today a brazenly proud holder of credit cards. In fact, a typical employed South Korean had four credit cards at the end of 2001, up from two in 1997.

The downside to all this is that millions have over-extended themselves to the point of bankruptcy. In Japan, the Tokyo District Court revealed that the number of personal bankruptcies reached an all time record of 160,567 cases in 2001, up from 141,628 in 2000, the steepest rise in 10 years. Fifteen million people (almost 12 percent) of the population owe money to consumer credit firms.

Low-income families face additional problems regarding credit. They are frequently ineligible for credit or, where eligible, pay more for their credit, far in excess of what is paid by more wealthy borrowers. In low-income communities, shoddy goods sold at high prices are often the only merchandise available in places that offer credit, and this adds to the cost of credit. Even in credit, the **POOR PAY MORE.**

Invariably, the poor have lower default rates than the wealthy but they are unable to access credible lenders. They fall prey to disreputable lenders and endure harsh recovery methods. Damage to property, beating and even killing of defaulting borrowers and suicide are testimony to an unregulated and grossly inadequate legal and

as credit counseling bureaus will go a long way to address the problem. But despite the burgeoning use of credit and the problems faced by consumers no country in the Asia Pacific, excepting Australia and New Zealand, have systematically addressed issues pertaining to consumer credit transactions. The law is archaic: esoteric distinctions are



administrative framework for credit. In Japan, on average, 18.7 people a day kill themselves, or leave their families and disappear without trace. In Malaysia, newspapers frequently report the suicides pursuant to harassment by loan sharks. A recent report was of a businessman and his wife (and their four year old son) committing suicide by drinking 'paraquat' (weed killer) because they were harassed and threatened by loan sharks. Another victim was found dead in his car, having been poisoned by carbon monoxide fumes. Increased credit use need not have such adverse consequences. Appropriate laws backed by a set of effective compliance mechanisms and supportive institutions such

made between different forms of credit and on such a basis many forms excluded from regulation. Existing regulation is widely disparate in relation to contract terms and lender conduct. Even the penalties provided for show no logical basis. This is not surprising since the laws were developed piecemeal over a century.

Law reform will call for both an agreement on the governing philosophy of the proposed statutes as well as agreement on the aspects, extent and manner specific aspects of the lender-borrower relationship is to be regulated. Clearly, the law that is designed must meet the attitudes and behaviour prevalent in each country.

*The CI Asia Pacific Office Consumer Protection & Law Programme is coordinating a regional project on consumer credit. The project is partly funded by the Anne Fransenfund, Japan Foundation Asia Centre and CI members in Hong Kong and Japan. For further information contact Susheela Nair, Research Officer, at [susheela@ciraop.org](mailto:susheela@ciraop.org)*



Prof. Toshiya Bando, Japan

The Asian Conference on Consumer Protection, Competition Policy and Law held from 28 February - 1 March 2003 proved a useful platform to address consumer credit related issues. An entire session in the

research methodology and project design for an Asia wide study and campaign on consumer credit law reform. CI members who participated in this meeting are Mrs. Pamela Chan from HKCC, Professor Manubhai Shah from CERC, Mr. Ahmad Shabrimi who represented the Consumers Association of Penang (CAP) and Professor Toshiya Bando who represented the Consumer Law News Network (CLNN) of Japan. Others present at the meeting were CI Asia Pacific Office's Regional Director, Dr. S. Sothi Rachagan, Assistant Director, Ms. Rajeswari Kanniah, Mr. Yap Kon Lim from the MDTCA and Ms. Susheela Nair from CI Asia Pacific.

The meeting identified the various components for the project. Participating members will commence research in their respective countries on the basis of the guidelines developed.

organisations, policy makers and through the media to the general public. CI members in the countries studied will have the benefit of the research outcomes to lobby for policy changes in their own countries.

To assist CI members and other agencies intending to commence research in the area of consumer credit, CI Asia Pacific Office is now in the process of developing a section on



Pamela Chan, Hong Kong & Yap Kon Lim, Malaysia

consumer credit within its law website ([www.ciasiapacific.org/apcl](http://www.ciasiapacific.org/apcl)). This section will provide reference materials on consumer credit and will include links to articles, consultation papers and laws from different jurisdictions such as Australia, Canada, New Zealand, and United Kingdom and the United States. It will also carry the country reports on consumer credit presented at the Asian Conference on Consumer Protection, Competition Policy and Law and the findings of the credit research undertaken by CI members participating in this project.



Nick McBride, New Zealand



Ahmad Shabrimi, Malaysia

A common logframe for the project was identified and it is anticipated that this project will see a National workshop being organised by each participating member, based on research undertaken and the findings from questionnaires. National monographs containing overviews, analysis of existing laws and proposed reforms in relation to their respective countries will also be produced. CI Asia Pacific Office will facilitate a Regional Conference at the end of this project. The outcomes of the research undertaken will be disseminated widely to consumer

conference was devoted to consumer credit. Mr. Nick McBride, Senior Advisor from the Ministry of Consumer Affairs, Wellington, New Zealand served as resource person. His presentation titled, "Consumer Credit Regulation" gave a brief history of consumer credit regulation in the US, United Kingdom, New Zealand and Australia. He explained the similarities and differences of the law in these jurisdictions. His then dealt with the differing objectives of consumer credit law and highlighted the background to some of the policy choices underlying the Consumer Credit Bill of New Zealand.

The session also involved country reports by Mrs. Pamela Chan from the Hong Kong Consumer Council (HKCC), Professor Manubhai Shah from the Consumer Education and Research Centre (CERC), India, Professor Toshiya Bando from the Kyoto Gakuen University, Japan and Mr. Yap Kon Lim from the Ministry of Domestic Trade and Consumer Affairs, Malaysia (MDTCA).

CI Asia Pacific Office's Consumer Protection and Law programme arranged for a project meeting on consumer credit and indebtedness at its office on 2 March 2003. Mr. McBride again acted as resource person and assisted in the development of the



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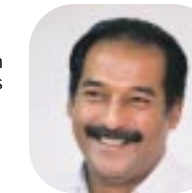
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