

# Bankruptcy: A Natural Phenomena Being Attacked On Malaysians'

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**Abstract**--Young generations around 30's who hold numbers of credit card and personal loans are an example of today's Malaysia. Many people claims that the socio economy status of someone is reflected by the number of credit cards they own. Without realizing the consequences of the usage of credit card beyond their limit, more and more young peoples aged around 30's were declared bankrupt due to credit card debts. This research intended to explore the factors that contributed to the bankruptcy of younger generation due to credit card debts. The findings of the research provide useful outcomes to younger generation as well as public in order to increase their awareness regarding the bankruptcy issue that could be seen as a "new disease". An update on the insolvency trends, performance and recent initiatives undertaken by Malaysia Department of Insolvency (Mdi) were also reviewed in this study. Insolvency Trends and the administrations consisting of individual bankruptcies and bankrupts' cooperation were also studied thoroughly.

**Keywords**—Bankruptcy, Malaysian, debts, credit cards.

## I. BACKGROUND OF STUDY

CREDIT cards were first issued in the USA in the early twentieth century. In Malaysia, the first card was introduced in the mid-1970s (Zafar U. Ahmed & et al., 2010) [1]. At the early on period, credit cards were only issued to professionals or successful business persons by card issuing companies. However, with the passage of time, eligibility criteria for obtaining credit cards have been changed because credit cards are now easily obtained by individuals regardless of their income or other measures of financial wellbeing. As a result, the number of cardholders reached to about three million by the turn of the last century (Zafar U. Ahmed & et al., 2010)[1]. The increase of credit card has brought many side effects to the users especially for the people aged below 30.

This is because credit card influence them in making the excessive spending because it easier and convenient for user to pay with credit card rather than bring cash with them. As a result, in March 2009, outstanding debts from credit card holders amounted to RM15.719 billion were reported. Then, by the year 2009 outstanding credit card debts accounted for 1.35 percent of the total loans outstanding or 11.41 percent of the total consumer credit (Bank Negara Malaysia, 2009; as cited in Zafar U. Ahmed & et al., 2010)[1].

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Thus, its shows that increase in the number of credit card holders seeking bankruptcy records over the years were also reported. The people below 30 are the leading aged group that has been declared bankrupt because of credit card debts (Credit Card Debt and You: Under-30s Under Siege, Malay Mail Insight, 2009)[2].

In the bankruptcy survey of the Panel Study of Income Dynamics, the most common reason that households gave for filing for bankruptcy was "high debt/ misuse of credit cards"—33 percent gave this as their primary reason for filing. A 2006 survey of debtors who sought credit counseling prior to filing for bankruptcy found that debt was even more important: two-thirds were in financial difficulty because of "poor money management/excessive spending" according to (National Foundation for Credit Counseling). In addition, all of the empirical models of the bankruptcy filing decision have found that consumers are more likely to file if they have higher debt. [3] Domowitz and Sartain (1999) found that households are more likely to file as their credit card and medical debt levels increase. [4] Gross and Souleles (2002a) similarly found that credit card holders are more likely to file as their credit card debt increases. In Fay, [5] Hurst, and White (2002)found that households are more likely to file as their financial gain from filing increases— where the financial gain from filing mainly depends on how much debt would be discharged in bankruptcy.

## II. LITERATURE REVIEW

Given the apparent connection between the expansion in credit card debt and the rise in bankruptcy filings, it's useful to review how markets for credit cards have evolved in recent decades. My discussion here draws on [6] Ausubel (1997), Evans and Schmalensee (1999), [7] Moss and Johnson (1999), [8] Peterson (2004), and [9] Mann (2006). Until the 1960s, consumer credit generally took the form of mortgages or installment loans from banks or credit unions. Obtaining a loan required going through a face-to-face application procedure with a bank or credit union employee, explaining the purpose of the loan, and demonstrating ability to repay.

Because of the costly application procedure and the potential embarrassment of being turned down, these loans were generally small and went only to the most creditworthy customers.<sup>4</sup> This pattern began to change with the introduction of credit cards in 1966, since credit cards provided unsecured lines of credit that consumers could use

at any time for any purpose. The earliest credit cards were issued by banks where consumers had their checking or savings accounts. Because most states had usury laws that limited maximum interest rates, banks offered credit cards only to the most creditworthy consumers, and card use therefore grew only slowly. But after the *Marquette* decision in 1978, credit card issuers could charge higher interest rates, and they expanded in states where low interest rate limits had previously made lending unprofitable.

Over time, the development of credit bureaus and computerized credit scoring models changed credit card markets, because lenders could obtain information from credit bureaus about individual consumers' credit records and could therefore offer credit cards to consumers who had no prior relationship with the lender. Lenders first offered credit cards to consumers who applied by mail, and then began sending out pre-approved card offers to lists of consumers whose credit records were screened in advance. These innovations reduced the cost of credit both by eliminating the face-to-face application process and by allowing lenders to expand nationally, which increased competition in local credit card markets. From 1977 to 2001, the proportion of U.S. households having at least one credit card rose from 38 to 76 percent [10] (Durkin, 2000).

III.INSOLVENCY TRENDS AND THE ADMINISTRATION

As reflected in the Figure 1, the total number of individual bankruptcies registered from 2005 to March 2011 is 90,898. 3. In the first quarter of 2011, 20,555 creditors' petitions were filed in court to initiate bankruptcy proceedings and this marks an increase of 0.78% from the first quarter in the previous year where 20,395 creditors' petitions were filed in court.

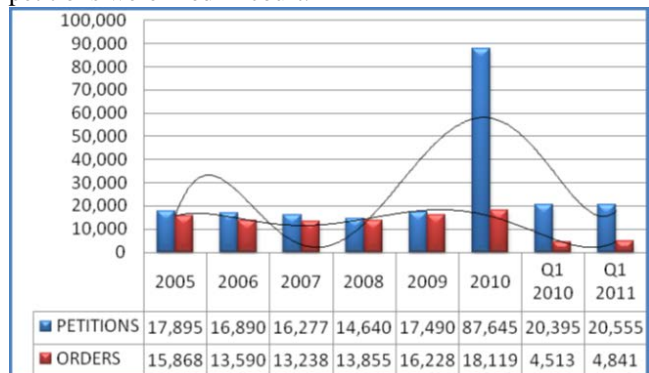


Fig.1: Yearly Petitions and Orders made from 2005 to 2011

Generally, **Figure 1** further indicates a sharp increase of 40.11% in the number of creditors' petitions filed in 2010 in contrast to the number of creditors' petitions filed in 2009. 17,490 petitions were filed by creditors in 2009 whereas as many as 87, 645 petitions were filed by creditors in 2010. In consequence to the increased number of creditors' petitions filed in 2010, the ending of 2010 shows an increase of 11.65% in respect of individual bankruptcies registered as

compared to the number of individual bankruptcies registered in 2009. A slight increase is shown in the number of Receiving Orders (RO) and Adjudication Orders (AO) made in the beginning of 2011. The first quarter of 2011 denotes an increase of 7.27% number of registered bankruptcy cases as 4,841 RO and AO were made in comparison to 4,513 RO and AO made in the first 3 months of 2010.

Fig.2: Cases Resolved Based on Categories from 2005 to March 2010

Parallel with the Tenth Malaysia Plan and the New Economic Policy introduced by the government, Malaysian Department of Insolvency (Mdi) strives to provide an effective administration of bankruptcy cases in ensuring the enhancement of public service delivery system and efficiency. Out of the total number of bankruptcy cases administered, a total of 23,147 cases had been resolved via 3 modes that is, discharge by way of court order, discharge via certificate of Director General of Insolvency and annulment of the Adjudication Orders, in the period between 2005 to March 2011.

As indicated in **Figure 2**, majority of cases had been resolved by way of discharge via certificate of Director General of Insolvency made in pursuant to section 33A, Bankruptcy Act 1967 in which 11, 342 (49%) bankruptcy cases were resolved. 8, 101 (35%) bankruptcy cases were resolved by way of annulment of adjudication orders and 16% of cases were resolved when 3,704 bankrupts had obtained their discharge by way of court order.

IV.BANKRUPTS' APPLICATIONS IN PURSUANCE TO SECTION 38 OF MALAYSIAN BANKRUPTCY ACT 1967

To recap, Section 38 of the Malaysian Bankruptcy Act 1967 restricts undischarged bankrupts from *inter alia*, leaving Malaysia, carrying on any business and maintaining any action in court, without the previous permission of the DGI. Bankrupts can obtain the permission of the DGI against any of those abovementioned restrictions by submitting their applications to the administering branch and it will be processed within 7 days from the date of application, as promised in Mdi's client charter.

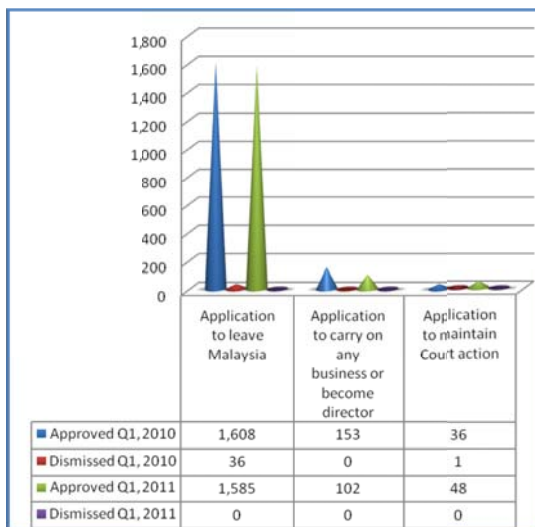


Fig.3: Number and types of application made by bankrupts from 2010 to 2011

**Figure 3** depicts the number and most common types of applications made by bankrupts. In the first 3 months of 2011, 1,735 applications to obtain the permission of DGI for various reasons were made and 100% of it was approved. Applications made to leave Malaysia in the first quarter of 2011 shows a slight decrease of 3.7% when only 1,585 applications were made, as compared to the 1,644 applications made in the first quarter of 2010. 102 applications made by bankrupts to obtain the permission of DGI to carry on any business were approved in the first quarter of 2010 in contrast to 153 similar applications made in the first quarter of 2010, which marks a decrease of 33.33%. Nevertheless, applications made by bankrupts to obtain the permission of DGI to maintain court action indicates an increase of 30.6% whereby 48 bankrupts made the application within the first 3 months of 2011 in comparison to only 37 applications made in the first 3 months of 2010.

The level of bankrupts' cooperation can mainly be indicated in the number of Statement of Affairs filed, as against the number of individual bankruptcies registered in a year. A bankrupt's cooperation in filing the Statement of Affairs is imperative in ensuring an efficient administration of each bankruptcy case. It is also essential in considering any of the applications made by the bankrupt during his/her period in bankruptcy.

## V.CONCLUSION

As the bankruptcy due to credit card debts has increase especially among people aged below 30, serious effort should be taken to curb this issue. Thus, researcher has come out with several recommendation or suggestion regarding this issue. Firstly, it is recommended to encourage people aged below 30's to use the debit card rather than credit card in order to reduce the debt and bankruptcy among them. Debit card will debit money directly from the owner account which prevents one's to

spend more than his or her ability. Whereas, credit card allow the card holder to borrow money from the issuing bank and there will be interest charges from the credit card company on the purchases that had been made. Thus, the higher debts can increase the chances to be declared as bankruptcy among credit card holder. Therefore, using debit card is the wise action when making the purchases since it will only allow the card holder to spend within their limit.

Other steps that can be considered is to increase the knowledge about credit card and bankruptcy among people aged below 30's. Providing the credit education to the people aged below 30 as well as public can help them in managing their money wisely and use the credit correctly to avoid debts. It can be done through financial seminar, talk from professional person or forum. The credit education can help one's to manage their financial, debt and set up a better planning for the future and it should begin as early as possible. Then, it is recommended for the government or any non government organization (NGO) to aggressively come out and implements the campaign in order to create the awareness regarding the credit card debts. For example, in the campaign should encourage public as well as people below 30's to bring their cash or use debit card rather than use the credit cards when buying things. By doing so, the public and people aged below 30's can think twice before purchase any product or service. Through this kind of campaign, it can increase the awareness regarding the credit card debts implication and the advantages and disadvantages of having the credit card.

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