Prepayment packages help businesses, but what about consumers?

There is an urgent need to strengthen safeguards across the board after a sharp increase in losses for consumers from 2022

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The recent abrupt closure of an enrichment chain has left customers with substantial financial losses. Police reports were lodged after Gentian Leung informed parents on May 8 that he was a Whistleblower message that it would be “winding down operations” without specifying the dates. Complaints reported that upfront payments of up to $399 and $2,398 had been made and they were seeking a total of $48,000 in unused prepaid lesson fees, according to the Consumers Association of Singapore (Cas).

In another recent case, reports were lodged against UFC Gym Singapore after its sudden closure, with members seeking the remainder of their fees. Such incidents involving the loss of large prepayment sums are not isolated. Case revealed that in 2022 alone, consumers lost more than $645,000 in prepayments, a sharp increase of 24 per cent from the previous year. The beauty industry accounted for the highest proportion of the losses while such cases were prevalent in sectors such as travel and fitness.

Businesses may make sudden changes in order to seize the moment, but the process of winding down takes time. There are legal procedures that typically take around six weeks. When firms fail to disclose store closure plans in advance, unsuspecting individuals become stranded with unused store credits, unfulfilled services, or disrupted access to products and services. Consumer trust takes a big hit and customers experience undue distress. It’s an unjust outcome that highlights the need for stricter regulations and safeguards to protect consumers’ interests in such situations.

STRENGTHENING PREPAYMENT REGULATIONS

Prepayment protection guidelines are well established in sectors like telecommunication, but others like the fitness sector either lack clear guidelines or suffer from weak enforcement. I visited the websites of many fitness gyms in Singapore and much to my astonishment, there was a concerning absence of information pertaining to refund policies and prepayment guidelines. These details, which should be easily accessible to prospective customers, were surprisingly lacking. Legislation enacted to establish clear guidelines on prepayment practices could be set as a model. This could include limits on deposit amounts and a requirement for businesses to provide detailed terms and conditions to customers. For instance, companies could state the refund policies clearly, providing accurate information on the financial stability of businesses, and ensuring proper documentation of contractual terms.

Such measures would empower consumers with the necessary information to make informed decisions and protect themselves against potential risks. Case has taken a proactive step in addressing prepayment concerns by establishing CaseTrust accreditation schemes. These schemes provide consumers with a level of protection by allowing them to claim unused prepayment amounts in the event of a business closure. The proof of protection provided by CaseTrust accreditation instills confidence in consumers and promotes trust between businesses and their clients.

LIMITATIONS OF ACCREDITATION

But CaseTrust accreditation applies only to businesses that have voluntarily enrolled in the specific accreditation scheme relevant to their industry. Not all businesses sign up and, therefore, not all prepayment transactions are covered. Consumers need to verify whether a particular business they are dealing with is accredited under the relevant scheme.

Moreover, CaseTrust protection does not cover all scenarios or circumstances. There may be exceptions or exclusions specified within the accreditation scheme that limit the scope of protection. It is essential for all interested parties to carefully examine the terms and conditions associated with CaseTrust accreditation to understand the extent of coverage and any applicable exclusions. For example, if a business changes ownership after a prepayment has been made, the new entity may not be covered by the CaseTrust scheme, potentially impacting the protection offered to consumers.

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compensation in case of non-delivery of promised goods or services. It would serve as an additional safeguard for consumers, ensuring that they have recourse and financial protection in case of any breaches or failures by the business.

BUSINESSES MUST PROTECT CONSUMERS’ PREPAYMENTS

The responsibility of protecting consumer prepayments lies at the forefront of business practices. Firms should safeguard customers’ financial interests and maintain transparency throughout the process. One possibility is for firms to show that they have put in adequate measures before they are allowed to collect prepayments. These measures include establishing separate trust accounts, obtaining insurance or surety bonds, implementing escrow systems, providing clear terms and conditions, conducting regular financial audits, and ensuring compliance with relevant consumer protection laws.

While businesses may argue that hefty deposits are necessary to secure customer commitment, it’s essential to consider the fairness of such practices. Large upfront payments put consumers in a perilous situation if a business unexpectedly closes. Setting a balance between protecting businesses’ interests and safeguarding consumer rights is crucial.

Exploring alternative models, like suggested prepayments, could provide a more equitable approach that protects both parties.

MITIGATING PREPAYMENT RISKS

Even where prepayment protection is strengthened and businesses have played their part, consumers still need to exercise due diligence. Conducting comprehensive research about the firm would help to safeguard against potential risks associated with prepayments. Exploring a business’ background and customer reviews enables consumers to make well-informed decisions based on the company’s reputation and track record. Equally important is obtaining written documentation. Requesting a meeting or contract that clearly outlines the transaction’s terms provides immutable protection in potential disputes or legal actions that may arise.

Consumer vigilance is key when it comes to prepayments, especially in the context of substantial upfront payments. Each region often issues red flags indicating possible fraud or an unscrupulously operated business. Being cautious and recognizing these warning signs helps consumers avoid falling victim to scams.

Using a credit card for prepayments adds an extra layer of protection. Credit card transactions frequently offer consumers enhanced safeguards and potential recourse under the Consumer Credit Act, instilling greater peace of mind.

By embracing these measures, consumers empower themselves to minimize the risks associated with prepayments. Armed with knowledge and prudence, they can confidently navigate prepayment situations.

THE TOLLS OF PREPAYMENT FAILURES

The financial losses from losing deposits can have severe consequences for individuals, affecting their financial stability and ability to fulfill other obligations. They can lead to a concerning cycle of debt and anxiety and emotional distress. Such failures can become straining, and this emotional and psychological strain can have long-lasting effects on individuals’ quality of life.

The impact extends to the industry as well. Existing businesses within the same industry suffer if consumer confidence is hit after customers are scarred by past incidents and become reluctant to make prepayments. This will not bode well for their revenue growth. Prepayment failures have significant negative repercussions for both society and the economy. Businesses, regulators, and citizens alike bear shared responsibility for the well-being and sustainability of the industry.

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