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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 Genius League informed parents on May 8 in a WhatsApp message that it would be "winding down operations" without specifying the dates.

Complainants reported that upfront payments of between $399 and $2,388 had been made and they were seeking a total of $14,000 in unused prepaid lesson fees, according to the Consumers Association of Singapore (Case).

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 decisions to shutter, 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 telecommunications, 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 one way forward. 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 instils confidence in consumers and promotes trust between businesses and their clientele.

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 consumers to review 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.

CaseTrust accreditation currently focuses on accrediting businesses in the broad categories of direct selling, renovation, motoring, jewellery and storefront. It also has a scheme for e-commerce.

Accredited businesses under the Spa and Wellness and Renovation CaseTrust Schemes protect consumers' prepayments, but that may not be the case for other sectors.

As a result, an additional measure to address this limitation could require businesses to obtain insurance to cover prepayments.

The insurance would offer consumers an additional means of 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.

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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.

Striking a balance between protecting businesses' interests and safeguarding consumers' rights is crucial.

Exploring alternative models, like staggered payments, 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 receipt or contract that clearly outlines the transaction's terms provides invaluable protection in potential disputes or legal actions that may arise.

Consumer vigilance is key when businesses demand substantial upfront payments.

Such requests often raise red flags indicating possible fraud or an untrustworthy enterprise. Being cautious and recognising 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 minimise 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 fulfil other obligations.

They can lead to a cascading effect of significant stress, anxiety and emotional distress. Relationships can become strained, and this emotional and psychological toll can have long-lasting effects on individuals' overall quality of life.

The impact extends to the industries 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 consequences for both society and the economy.

Businesses, regulators and citizens all bear shared responsibilities in preventing and mitigating the impact of such failures.

Collaboration among these stakeholders is crucial for establishing a robust marketplace that cultivates trust, reliability and sustainable economic growth.

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