

A LEGAL STUDY ON THE CREDIT CARD LAWS IN MALAYSIA

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Submitted in partial fulfilment of the requirements
for the degree of Bachelor of Legal Studies (Hons)

Universiti Teknologi MARA

Faculty of Law

December 2013

The students/authors confirm that the work submitted is their own and that appropriate credit has been given where reference has been made to the work of others.

ACKNOWLEDGEMENT

In the name of Allah the Almighty, and the most Merciful. Firstly, we would like to convey our utmost sincere thanks to Miss Norliza Abdul Hamid, our advisor, for all that we have learned from her and her continuous help and support along the process of this project paper. We would also like to thank her for her patience, motivation, enthusiasm, and immense knowledge along the way that helped us throughout our research. We appreciate her being open to our thoughts and ideas and which have helped us a great deal in the completion of this research.

We would also like to express our gratitude and respect to Dr. Sheela Jayabalan whose insight and advice proved to be invaluable to us. Her knowledge on Contract Law eased us to carry out our proposal for the research. With her kindness and guidance during semester four of our study for our law degree, she taught us how to find our research objectives and problem statements that eventually serve as the compass for this research paper.

In addition, we are greatly indebted to all those who contributed in one way or the other to the successful completion of this research paper, in particular our teammates and fellow classmates of the Faculty of Law, UiTM. They gave us motivation to complete this research paper by always being ready to exchange ideas and have discussions.

Last but not least, we would like to express our gratitude to our parents and family for supporting us morally and financially along the research. We could not have completed this research paper without their support. We are very thankful for their understanding and cooperation during the process of writing this research paper.

ABSTRACT

This project looks at the relationship between credit card consumers and credit card issuers. The purpose is to show that there are lacunae in law on credit card transactions in Malaysia. Currently, mere guidelines from the Central Bank of Malaysia regulate the transactions. This has been done by conducting legal research and looking at legal reasoning from court decisions , statutes, books, journals, articles, and online internet sources. The lack of law governing credit card transactions causes an imbalance negotiation power between the creditors and credit consumers in Malaysia. Through showing the issues and implications of credit card transaction in Malaysia, this research highlighted the importance of a stronger credit card law and the need to change policies of institutions to be more protective and constructive for consumers.

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CHAPTER 1: INTRODUCTION

1.1 Background

Consumer credit is the money, goods or services provided to an individual in lieu of payment. Common forms of consumer credit include credit cards, store cards, motor (auto) finance, personal loans, consumer lines of credit, hire-purchase and mortgages. Transactions such as credit cards, cash advance, fund transfer and overdraft are all under the control of Malaysian banks which are then governed by the Central Bank of Malaysia.

1.2 Problem Statement

The Central Bank of Malaysia Act 2009, the Contracts Act 1950, the Financial Services Act 2013 defined the terms and rights of the issuers but they do not clearly define the rights of consumer in these transactions. The current law regulates bank and companies. However, it only provides protection for depositors but not for the consumers. These Act mostly side with the lenders and creditors giving them the upper hand in credit agreements. The consumers will have to go to court and file a case when there is a dispute with lender or creditor.

Interest on loan is pegged at BLR (Base Lending Rate) plus a spread of 25% while for credit cards loans are not regulated at all and vary from 1.75% to 2% per month, and the average BLR is usually at 3%. While BLR in other countries are lower such as Japan is at 0.10%, Saudi Arabia at 2.5%. Besides, the interest rates on consumer credit transactions are inconsistent and vary with countries.

For the maximum interest rate that has been set in Central Bank of Malaysia loan is 18% per annum¹, more specifically the maximum interest rate charged for secured loans is 12% while unsecured loans at 18% (exempted companies up to their whims a fancy) and this applies on all credit loans. This is different compared to the Japan Money Lending Business Act which charges different rate of interest for personal and business loans. The United States of America imposes maximum interest at 17.5% per annum, while in Australia, the Australian Penalty Interest Rates

¹ Bank Negara Malaysia. (2007). *Press Release*. Retrieved 16 November, 2013, from <http://www.bnm.gov.my/index.php?ch=8&pg=14&ac=1467>