

Breaking the Cycle of Bankruptcy with Consumer Education: Remedial Action or Prevention?

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Consumer education has been a difficult element to retain as a mandatory course in the formal school curriculum in Canada, with only fragmented coverage throughout the country. In an interesting turn-about, the federal government has mandated consumer education as part of the remedial aspects of new bankruptcy legislation. It has been shown that bankrupts have limited expertise and competence in credit use and family resource management (Clare, 1990). This paper outlines how this change in policy was made, how consumer education is delivered, and suggests that a preventive approach may be more effective than the current initiative.

Consumer education is conventionally taken to comprise the three overarching concepts of decision making, resource management, and citizen participation. The first level concept posits three levels of influence on consumer decision making including personal factors and the larger environment. The second level, resource management, comprises financial planning, money management, buyership, and conservation while the third level portrays the consumer as a citizen with a sound working knowledge of the political process and training to make his/her voice heard in government and business. If consumer education is to improve the well-being of consumers, education should result in consumers gaining a range of skills: (a) coping, (b) asking questions before purchasing, (c) planning purchases based on income and goals, (d) making sound and reasoned purchases, (e) getting involved in government and business decisions, and (f) taking action to change things which impact on their consumer interest (Bannister & Monsma, 1982).

Until consumers themselves demand consumer education, it makes sense for government to further the above objectives of consumer education. This intervention should produce more competent buyers, more capable financial managers and consumers with a better understanding of the economy (Mohr, 1988). Of course, consumer education is only the start of a continuing process which is designed to alter consumer socialization (Vosburgh, 1992). It is the means by which people acquire skills, knowledge, and attitudes relevant to their functioning in the marketplace (Ward, 1981). Any consumer education program should provide a framework for analyzing problems and choosing solutions under ever-changing

conditions. The fundamental goal of consumer education is to enable people to achieve a more satisfying level of living, now and in the future (Robinson, 1988). This implies ongoing economic security, solvency and adequate credit management.

Mandatory Consumer Education for Canadian Bankrupts

In major milestones in 1992 and 1995, Canada was the first country to make financial counseling and consumer education mandatory prior to an unconditional discharge from personal bankruptcy. Subsequent to revisions to the Bankruptcy and Insolvency Act (BIA) (McGregor & Berry, 1997a,b), there are now a set of directions (called Counseling Directives, CD's) for how trustees and private counselors are to implement counseling and education so that the debtor is assisted with improvement in (a) knowledge of handling money, (b) understanding causes leading to bankruptcy, (c) keeping financial affairs in better order and, (d) avoiding bankruptcy in the future. The intent is to provide the debtor with (a) advice on debt resolution options to reduce recidivism, (b) consumer education skills, and (c) rehabilitation by determining the underlying emotional and monetary cause of insolvency (Consumer and Corporate Affairs Canada [CCAC], 1992). The rules put in place for the delivery of consumer education to bankrupts (Industry Canada, 1994) are set out in the following text.

Timing, Size and Fee for Consumer Education Session

Consumer education for bankrupts is mandatory, occurring before the counseling session. It can occur individually or in groups of 2-20. The fee for the session is the same whether the bankrupt or all family members attend. The session must occur between 10 and 60 days after officially entering into bankruptcy (liquidation of assets) or a consumer proposal (debt repayment program). The consumer education session occurs within 10 days **following** the first meeting with creditors (which may be cancelled in the near future). There is no provision in the CD for a length of time for the session. Bankrupts sign a certificate indicating they have attended and received consumer education and then proceed to the counseling session which happens 30 days after the consumer education session and within 210 subsequent days (Liptrap, 1997).

Content of Consumer Education Session

The consumer education session focuses on family resource management rather than decision making and citizen participation. The CD identifies four areas of consumer education to be covered in the session: money management, spending and shopping habits, warning signs of financial difficulties, and obtaining and using credit. Industry Canada (formerly CCAC) now has a five-module course which all trustees and counselors must take if they want to deliver counseling (including consumer education) under the BIA (Liptrap, 1997). There is a module on the bankruptcy process (40 pages), interviewing and counseling techniques (55 pages) and creative thinking and problem solving (25 pages). The longest modules in the course deal with consumer education, elements of money management (70 pages) and money in context (65 pages).

Because of the context of their insolvent situation, bankrupts need more focus on money management, spending and shopping habits than just basic credit management (McGregor & Berry 1997a). Consequently, the module on the elements of money management covers consumer credit, the budgeting process, and good consumer practices such as contracts, savings, and sound credit management to avoid indebtedness and fraud. The counselors also are instructed to recognize the needs of diverse clients beyond those who are in debt as a result of excessive credit, especially the self-employed, chronically low-income and families in financial transition (Liptrap, 1997).

The module on money in context exposes trustees and counselors to skills which enable them to better gauge the context of the insolvent's situation since not all bankrupts are the same. There are sections on (a) profile of insolvent Canadians; (b) money management styles; (b) attitudes, values, and meanings towards money, indebtedness and solvency; (c) family conflict, cooperation, and money; (d) changing family structures and demographics; (e) warning signs of addictive and destructive buying and gambling behavior; and (f) varying financial needs during life cycle stages and times of unplanned transitions (Liptrap, 1997).

The module on creative problem solving and decision making is designed for those counselors who need skills to find creative approaches to broaching the roadblocks impeding a bankrupt's empowerment and future solvency, the ultimate goal of this consumer education session. It includes sections on choices and opportunities, the creative decision-making process, creative thinking to expand one's perceptions of available options, and strategies to help

consumers see opportunities while remaining cognizant of the consequences of their actions (Liptrap, 1997).

One downfall of this positive scenario is that neither the content nor delivery of the consumer education sessions are standardized across Canada. Anecdotal evidence suggests that sessions can vary from asking if bankrupts think they need consumer education, to handing out pamphlets, to delivering one to two hour sessions.

The issue of standardized consumer education for bankrupts has the attention of the new Superintendent of Bankruptcy who recently commissioned a study of the impact of counseling on bankrupts (White, 1997). An inherent part of the survey design is questions related to how long the consumer education session lasted, who delivered it and the content. To be completed in 1998, the study will provide a better idea of what should be included in a standardized package for the consumer education session.

This study is important because third- fourth- and fifth-repeat bankruptcies are becoming more common, upwards of 10% (Clare, 1990). Almost 90,000 Canadians from a population of 30 million declared bankruptcy in 1997. (In comparison, this number reached almost 2 million in the United States with a population of over 250 million.) Canadians need to know if some of the repeat bankrupts are those who had consumer education and counseling under the BIA. A 1994 study provided strong evidence that debtors perceive consumer education positively (McGregor & Berry 1997b). It is anticipated that mandatory consumer education will contribute to reducing recidivism and removing people from the cycle, or the brink, of bankruptcy. But, is mandatory government intervention enough? What is the role of consumer educators in the public sphere?

Implications for Consumer Educators

Very few individuals begin their financial lives with the expectation that they will become insolvent, meaning that bill payment has stopped or been severely compromised. Every year, however, due to this insolvency, millions of families around the world face severe debt crisis involving home foreclosures, apartment evictions, utility terminations, seizure of property, and debt collection harassment (National Consumer Law Center, 1992). Most families have some level of difficulty managing finances with some getting in such dire straits that they have to opt for legal avenues to resolve the debt situation with the most drastic being personal bankruptcy (Poduska, 1993; Williams, 1991). They then can obtain relief from their heavy debt burden and start their financial life with a clean slate.

But, consumer educators have to question the remedial nature of this approach to such a fundamental problem in society. On the one hand, it is exciting that the Canadian government has taken steps to stave the exponential increase in the number of bankrupts by making consumer education mandatory. It is, conversely, disheartening that consumers are not being socialized adequately into their role as consumer and that the economy and lending practices are creating a situation conducive to excessive reliance on and misuse of credit to maintain society's standard of living.

Consumer educators are challenged to continue to lobby for mandatory consumer education across all curricula: elementary, junior high, high school, secondary and adult education. The Jump \$tart Coalition for Personal and Financial Literacy and the Canadian Consumer Education and Information Forum (CCEIF) are two recent North American initiatives striving for this laudable goal. These two organizations exist because citizens are unable to resist or manage the phenomenal amount of credit available in today's marketplace leading to the inability to be solvent in the present or save for the future. An educational, preventive and developmental approach to consumer education needs to complement the remedial, intervention approach being used by the Canadian government and contemplated by American institutions (Gross, 1997). Such initiatives by consumer educators can produce more competent buyers, more capable financial managers, and consumers with a better understanding of the economy ultimately leading to a solvent, financially viable consumer population.

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Relevant Web Sites

www.strategis.ic.gc.ca (Industry Canada)
www.cceif.mb.ca
www.jumpstartcoalition.org

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