

# Protection of Consumers' Rights and Interests in Prepaid Consumption Contracts

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**Abstract:** Prepaid consumption is widely used in many industries. Although it provides convenience and preferential treatment for consumers, it also brings many problems, such as merchants running away, declining service quality, difficulty in getting refunds, and unfair terms. These problems have seriously infringed on the legitimate rights and interests of consumers. The existing legal framework, such as the Consumer Rights Protection Law and the Contract Law, provides protection to a certain extent, but there are still deficiencies in practical operation, such as lagging legislation, insufficient law enforcement, and difficulty for consumers to safeguard their rights. This paper explores the practice of protecting consumers rights and interests in prepaid consumption contracts, including prepayment supervision, credit evaluation mechanisms, industry self-regulation, and consumer education, and puts forward improvement suggestions such as further improving legislation, strengthening law enforcement, establishing early warning mechanisms, and optimizing dispute resolution approaches. The purpose is to improve the level of protection of consumers rights and interests in prepaid consumption through these measures, promote the healthy development of the prepaid consumption market, and achieve a win-win situation for consumers and merchants.

**Keywords:** Prepaid Consumption; Protection of Consumers Rights and Interests; Consumption Contracts.

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## 1. Definition and Characteristics of Prepaid Consumption

Prepaid consumption refers to a consumption model in which consumers pay all or part of the money in advance before receiving goods or services. This model is widely used in industries such as fitness clubs, beauty salons, and education and training. By collecting prepayments from consumers in advance, merchants can obtain funds in advance and ensure consumers future consumption behavior.[1] Prepaid consumption has various forms, mainly including membership card mode, package service mode, prepaid courses, and stored-value card mode. For example, consumers can buy annual cards for fitness clubs or monthly cards for beauty salons, obtain discounts or services through advance recharge, and education and training institutions often lock in future students by collecting course fees in advance.

The most prominent feature of prepaid consumption is prepayment, that is, consumers must pay all or part of the money in advance before enjoying services or purchasing goods. This feature makes consumers unable to obtain goods or services immediately after payment, leading to certain risks in fund safety. Prepaid consumption also has the characteristics of continuity. Once consumers prepay fees, it means that they need to continuously enjoy services or purchase goods in the future. This continuity requires consumers to estimate their future consumption needs when choosing prepaid consumption, and also requires merchants to continuously provide high-quality services in the future.[3]

However, there are often unequal terms in prepaid consumption contracts. Merchants may set some provisions favorable to themselves in the contract terms, while consumers are often at a disadvantage due to information asymmetry or lack of legal awareness. For example, some merchants will set unfair terms such as "no refund" or "the final interpretation right belongs to the merchant" in the

contract, which seriously damage the legitimate rights and interests of consumers. Prepaid consumption relies on consumers trust in the credit of merchants. When consumers prepay fees, they usually believe that merchants will provide the promised goods or services in the future. [2]However, once the merchants credit has problems, such as poor operation, declining service quality, or maliciously running away, the consumers rights and interests will be seriously damaged. Therefore, prepaid consumption puts forward higher requirements for merchants honest operation and credit evaluation system.

## 2. Common Problems in Prepaid Consumption

Although the prepaid consumption model provides convenience and preferential treatment for consumers, it is also accompanied by many common problems that seriously affect the rights and interests of consumers. First of all, the phenomenon of merchants running away occurs frequently. Under the prepaid consumption model, after consumers pay all or part of the money in advance, merchants may close their stores or abscond with the money due to poor operation, malicious fraud and other reasons. Such situations are particularly common in industries such as fitness clubs and beauty salons. After paying a large amount of prepayment, consumers find that the merchant suddenly disappears, leading to serious damage to their rights and interests. The main reason for this phenomenon is that the existing laws and regulations have insufficient binding force on merchants, who can easily evade responsibilities, while consumers face the dilemma of difficult rights protection.

Secondly, the decline in service quality is also an important problem in prepaid consumption. Many merchants often reduce service quality or even fail to fulfill their original commitments after collecting prepayments from consumers. This situation usually occurs when consumers have paid and

merchants no longer need to attract new customers by providing high-quality services. After finding that the service quality has declined, consumers usually choose to continue using the paid services instead of giving up the paid fees, which undoubtedly further encourages the bad behavior of merchants. [6]This phenomenon not only affects the consumer experience of consumers, but also damages their legitimate rights and interests.

Difficulty in refunding prepayments is also one of the common problems in prepaid consumption. When consumers are dissatisfied with the service or need a refund for other reasons, they often encounter delays or refusals from merchants. Some merchants set strict refund conditions in the contract terms, and even clearly stipulate that no refund will be given, which makes consumers face many difficulties when applying for a refund. [8]For example, in some fitness clubs or beauty salons, once the prepaid services purchased by consumers start to be used, it is difficult to request a refund, and even the unused part may be refused by the merchant. This situation not only increases the economic burden on consumers, but also puts them at a disadvantage in safeguarding their rights.

Finally, unfair terms are prevalent in prepaid consumption contracts, which further damage the rights and interests of consumers. Merchants set some unfair terms favorable to themselves in the contract, such as "no refund" and "the store has the final interpretation right", which seriously weaken the rights of consumers. These unfair terms are often hidden in the details of the contract. Due to lack of legal awareness or failure to carefully read the contract content when signing the contract, consumers often ignore the existence of these terms and eventually fall into a passive position when disputes arise.[7] For example, many fitness clubs and beauty salons set the term "no card refund" in their membership card agreements. When consumers find the service unsatisfactory or unable to continue using it for other reasons after applying for a membership card, they cannot get reasonable refund protection.

In summary, the problems such as merchants running away, declining service quality, difficulty in getting refunds, and unfair terms in the prepaid consumption model not only affect the consumer experience of consumers, but also seriously infringe on their legitimate rights and interests.

### 3. Existing Legal Framework

In response to the problem of infringement of consumers rights and interests in prepaid consumption, China has a series of laws and regulations to provide basic protection. These laws and regulations mainly include the Consumer Rights Protection Law, the Contract Law, and some local regulations.

First of all, the Consumer Rights Protection Law provides important protection for consumers rights and interests in prepaid consumption. The Consumer Rights Protection Law clearly stipulates the basic rights of consumers, such as the right to know, the right to choose, the right to fair trade, and the right to claim compensation. [4]In the prepaid consumption model, the consumers right to know and the right to fair trade are particularly important. The law requires merchants to truthfully inform consumers of the true situation of goods or services when providing them, and shall not conceal or falsely advertise. At the same time, the law also restricts the unfair terms of merchants, and clearly prohibits the setting of unfair and unreasonable standard terms or unfair terms to ensure that the legitimate rights and interests of

consumers are not infringed. Although the Consumer Rights Protection Law provides a legal basis for prepaid consumption, consumers still face many difficulties in safeguarding their rights in practical operation.

Secondly, the Contract Law regulates the relevant contractual relations in prepaid consumption. The Contract Law stipulates the basic principles for the conclusion, performance, modification and termination of contracts, providing a legal basis for the contractual relationship between consumers and merchants. In the prepaid consumption model, the contract between consumers and merchants often involves a long performance cycle and complex service content. The Contract Law requires both parties to the contract to conclude the contract on an equal and voluntary basis through consultation, and shall not use the contract to seek improper interests. In addition, the Contract Law also stipulates that the terms of the contract shall be fair and reasonable, and shall not exempt the merchant from the liability it should bear or exclude the rights that the consumer should enjoy. However, in practical operation, due to information asymmetry and weak legal awareness of consumers, merchants often restrict consumers rights by setting unfair terms, which puts forward higher requirements for the protection of consumers rights and interests. [8]

In addition to national laws and regulations, some local governments have also issued special regulations for prepaid consumption to strengthen the supervision of prepaid consumption. Taking Shanghai as an example, in 2019, Shanghai issued the "Regulations on the Administration of Single-Use Prepaid Consumption Cards in Shanghai", which for the first time included individual industrial and commercial households in the scope of supervision and made detailed provisions on common disputes in prepaid consumption. The regulations require merchants to disclose information in the links of issuing, cashing, and prepayment of prepaid consumption cards to ensure consumers right to know. [1]In addition, Shanghai has also established a unified supervision platform to supervise prepayment funds and prevent merchants from absconding with the money. These local regulations have made up for the deficiencies of national laws to a certain extent and provided more specific protection measures for consumers rights and interests in prepaid consumption.

Although the existing laws and regulations provide protection for consumers rights and interests in prepaid consumption to a certain extent, there are still many deficiencies in practical operation. When consumers face problems such as merchants running away, declining service quality, difficulty in getting refunds, and unfair terms, they often find it difficult to obtain effective remedies through the existing laws and regulations. Therefore, further improving the legal framework, strengthening law enforcement, and improving consumers legal awareness are still the key to protecting consumers rights and interests in prepaid consumption.[11]

### 4. Deficiencies in the Legal Framework

Although the existing legal framework provides protection for consumers rights and interests in prepaid consumption to a certain extent, there are still many deficiencies in practical operation, leading to many difficulties for consumers in the process of safeguarding their rights.

First of all, the current laws and regulations are lagging behind in dealing with prepaid consumption problems and

lack special laws and regulations for regulation. At present, China mainly relies on general laws such as the Consumer Rights Protection Law and the Contract Law to handle disputes in prepaid consumption. Although these laws provide a basic protection framework, in practical operation, they often seem powerless in the face of such a complex business model as prepaid consumption. For example, in prepaid consumption, problems such as merchants running away and declining service quality occur frequently, but the existing laws lack detailed provisions on how to prevent and handle these problems. This backwardness in legislation makes it difficult for consumers to find specific legal basis for safeguarding their rights when they encounter problems.

Secondly, insufficient law enforcement is another major problem in the existing legal framework. In practical operation, the supervision and punishment of prepaid consumption by law enforcement agencies are often insufficient, which cannot effectively curb the illegal acts of merchants. Although the Consumer Rights Protection Law and the Contract Law restrict the improper acts of merchants, in the actual law enforcement process, due to the limitations of manpower and material resources, it is difficult for law enforcement agencies to conduct timely and effective supervision and handling of each individual case of prepaid consumption. For example, when a merchant absconds with the money, the response of law enforcement agencies is often lagging behind, making it difficult to recover the consumers prepayments in a timely manner, leading to serious damage to the consumers rights and interests. This situation of insufficient law enforcement makes some bad merchants emboldened to continue to infringe on the rights and interests of consumers.[10]

In addition, the difficulty for consumers to safeguard their rights is also an important deficiency in the existing legal framework. Consumers in prepaid consumption often face problems such as difficulty in providing evidence and high litigation costs in the process of safeguarding their rights. First of all, when consumers have disputes with merchants, they often need to provide a lot of evidence to prove that their rights and interests have been infringed, and the collection and preservation of these evidences are difficult for ordinary consumers. For example, consumers need to provide purchase records, consumption contracts, service standards promised by merchants and other evidence, but in many cases, these evidences are not complete or difficult to obtain. Secondly, high litigation costs are also a major obstacle for consumers to safeguard their rights. Many consumers often choose to give up safeguarding their rights because the litigation costs are too high when facing disputes with small amounts, resulting in their rights and interests not being properly protected.

In summary, the existing legal framework has deficiencies such as lagging legislation, insufficient law enforcement, and difficulty for consumers to safeguard their rights when dealing with the protection of consumers rights and interests in prepaid consumption. In order to better protect the legitimate rights and interests of consumers, it is necessary to further improve laws and regulations, strengthen law enforcement, reduce the cost of consumers rights protection, and enhance their ability to safeguard their rights.

## **5. Practice of Protecting Consumers' Rights and Interests in Prepaid Consumption Contracts**

In order to effectively protect the rights and interests of consumers in prepaid consumption, local governments and relevant institutions have carried out various explorations and practices on the basis of the legal framework. These practical measures include prepayment supervision, credit evaluation mechanisms, industry self-regulation, and consumer education.

First of all, in terms of prepayment supervision, the third-party custody system is an important exploration and practice. Under this system, the prepayments of consumers will not directly enter the merchants account, but will be managed by a third-party custody institution. [10] Only when the consumer confirms that he has received satisfactory goods or services will the prepayment be transferred to the merchant. This method effectively prevents the risk of merchants absconding with the money and ensures the safety of consumers funds. For example, in the "Regulations on the Administration of Single-Use Prepaid Consumption Cards in Shanghai", Shanghai requires the establishment of a unified supervision platform to strictly supervise prepayment funds. This system not only increases the credibility of merchants, but also improves consumers trust.

Secondly, establishing a merchant credit evaluation system is another important measure to protect consumers rights and interests. The credit evaluation mechanism evaluates and publicizes the credit status of merchants, allowing consumers to refer to the credit information of merchants when choosing prepaid consumption and make more rational decisions. This mechanism can effectively restrict the dishonest behavior of merchants and urge them to provide higher quality goods and services. For example, some local governments and industry associations have established a merchant credit rating system to comprehensively evaluate the business status, customer evaluation, service quality and other aspects of merchants, and publicize the results for consumers reference. This transparent credit evaluation mechanism has reduced the risk of consumers being defrauded to a certain extent.

In terms of industry self-regulation, industry associations have played an important role. Industry associations regulate the business behavior of member units and improve the overall service level by formulating industry norms, standards and self-regulation conventions. For example, some industry associations such as beauty and hair care and fitness have formulated documents such as the "Member Service Specifications" and "Industry Self-Regulation Convention", which clearly require member units not to set unfair terms, not to conduct false advertising, and regularly inspect and evaluate member units.[6] This self-regulation mechanism can effectively improve the overall service quality of the industry and protect the legitimate rights and interests of consumers.

Consumer education is also an important link in protecting consumers rights and interests. Improving consumers awareness of self-protection and their ability to safeguard their rights can help them better cope with the risks in prepaid consumption. Consumer education includes popularizing relevant legal knowledge, providing guidance on rights protection, and enhancing consumers awareness of risk prevention. For example, governments and consumer rights protection organizations can introduce common problems in

prepaid consumption and their coping measures to consumers through brochures, lectures, media reports and other methods, help consumers understand their legitimate rights and interests, and master rights protection skills. In this way, when facing unfair terms or declining service quality, consumers can more actively safeguard their own rights and interests.

In summary, the practice of protecting consumers rights and interests in prepaid consumption contracts has gradually established a relatively complete protection system through various measures such as prepayment supervision, credit evaluation mechanisms, industry self-regulation, and consumer education. These practical measures have made up for the deficiencies of the existing legal framework to a certain extent and provided more effective protection for consumers rights and interests in prepaid consumption.

## 6. Improvement Suggestions

In order to more effectively protect the rights and interests of consumers in prepaid consumption, it is necessary to further improve legislation, strengthen law enforcement, establish early warning mechanisms, and optimize dispute resolution approaches on the basis of the existing legal framework and practices.

First of all, improving legislation is a key step in protecting consumers rights and interests in prepaid consumption. At present, China lacks special laws and regulations in the field of prepaid consumption, leading to consumers difficulty in finding specific legal basis when encountering problems. Therefore, it is recommended to issue special laws for prepaid consumption as soon as possible, clearly stipulating the content such as prepayment supervision, contract terms, and merchant responsibilities. This law should clearly stipulate the consumers right to know, the right to fair trade, and the right to claim compensation, prohibit the setting of unfair terms, and set strict punishment measures for the illegal acts of merchants. In addition, the operating norms for prepaid consumption should also be stipulated to ensure that merchants must perform their contractual obligations when providing goods or services, thereby protecting the legitimate rights and interests of consumers.

Secondly, strengthening law enforcement is also an important measure to protect consumers rights and interests. In practical operation, the supervision and punishment of prepaid consumption by law enforcement agencies are insufficient, leading to low illegal costs for merchants and difficulty in effectively curbing illegal acts. Therefore, it is recommended to strengthen law enforcement to ensure the strict implementation of relevant laws and regulations. Law enforcement agencies should increase the frequency of inspections on prepaid consumption merchants, and timely discover and handle illegal acts. At the same time, a rapid response mechanism should be established. When consumers report illegal acts of merchants, they can quickly intervene in the investigation and take corresponding punishment measures. In addition, the professional quality and law enforcement ability of law enforcement personnel should be improved through training and assessment to ensure the efficient and fair law enforcement work.

Establishing an early warning mechanism is an important means to prevent the risks of prepaid consumption. It is recommended to set up a risk early warning system for prepaid consumption to conduct real-time monitoring of the business status of merchants and the situation of consumer complaints. Once it is found that the merchant has abnormal

operations, increased consumer complaints and other situations, an early warning should be issued in a timely manner, and corresponding intervention measures should be taken, such as freezing the prepayment account and restricting the merchant from continuing to sell prepaid cards. This early warning mechanism can intervene in a timely manner before problems occur, preventing greater damage to consumers rights and interests. At the same time, a merchant integrity file should be established to record and publicize the credit status of merchants for consumers reference, thereby improving the overall integrity level of the market.

Finally, optimizing dispute resolution approaches is an effective measure to reduce the cost of consumers rights protection and improve the effect of rights protection. At present, consumers face problems such as difficulty in providing evidence and high litigation costs in the process of safeguarding their rights, leading to great difficulty and poor effect in safeguarding their rights.[7] It is recommended to simplify the rights protection procedures, reduce the cost of rights protection, and enhance consumers enthusiasm for rights protection. For example, a rapid handling mechanism for prepaid consumption disputes can be established to quickly resolve disputes between consumers and merchants by setting up special mediation agencies and summary litigation procedures. In addition, the role of consumer protection organizations should be strengthened to provide legal consultation, evidence collection, litigation agency and other services to help consumers better safeguard their own legitimate rights and interests.

In summary, by improving legislation, strengthening law enforcement, establishing early warning mechanisms, and optimizing dispute resolution approaches, the level of protection of consumers rights and interests in prepaid consumption can be effectively improved. These improvement measures can not only make up for the deficiencies of the existing legal framework, but also promote the healthy development of the prepaid consumption market, and ultimately achieve a win-win situation for consumers and merchants.

## 7. Conclusion

Prepaid consumption, as a widely adopted business model in sectors such as fitness, beauty, and education, offers consumers convenience and discounts while providing merchants with stable cash flow and customer loyalty. However, the inherent characteristics of prepayment—namely, the temporal gap between payment and performance, information asymmetry, and reliance on merchant credit—expose consumers to significant risks, including merchants absconding, declining service quality, difficulties in obtaining refunds, and the imposition of unfair contract terms. This paper has systematically examined the definition and features of prepaid consumption, identified the common problems faced by consumers, and evaluated the existing legal framework under China's Consumer Rights Protection Law, Contract Law, and local regulations. The analysis reveals that, despite these legal provisions, deficiencies such as legislative lag, insufficient enforcement, and high barriers to rights protection persist, leaving consumers vulnerable in practice. Furthermore, the paper explores practical measures—including prepayment supervision, credit evaluation mechanisms, industry self-regulation, and consumer education—that have been implemented to mitigate these risks. Based on this assessment, it is proposed that a multi-

faceted approach is essential: improving special legislation, strengthening law enforcement, establishing early warning systems, and optimizing dispute resolution mechanisms. Only through such comprehensive reforms can the legitimate rights and interests of consumers be effectively safeguarded, the healthy development of the prepaid consumption market be promoted, and a fair and trustworthy consumption environment be achieved for both consumers and merchants.

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