

Financial Management among Malaysian People

Nurfahiratul Azlina Binti Ahmad¹, Emie Sylviana Binti Mohd Zahid², Gul Ghutai³, M. Z Mohd Zin⁴

^{1,2}Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA, Cawangan Pulau Pinang, Permatang Pauh Campus, 13500 Pulau Pinang, MALAYSIA, ³Commerce

Department, Sardar Bahadur Khan Women's University, Brewery Road, Quetta, PAKISTAN,

⁴Academy of Contemporary Islamic Studies (ACIS), Universiti Teknologi MARA, Cawangan Sarawak, MALAYSIA

Email: gulghutai@sbkwu.edu.pk

Corresponding Author Email: fahiratul@uitm.edu.my

To Link this Article: <http://dx.doi.org/10.6007/IJAREMS/v13-i1/20910>

DOI:10.6007/IJAREMS/v13-i1/20910

Published Online: 20 February 2024

Abstract

Finance is an important component of human life. Money is a universally recognized tool or object of value that can be used to exchange products, services and settle debts. Finances have become very important to improve the quality of life and overall well-being of a person. A life that is not based on Islamic Sharia will lead to an imbalance in life. In general, the method used in producing this study is part of a qualitative approach that involves the highlighting and analysis of secondary data obtained through documents, research results or writings that have been highlighted. The data obtained was then systematically analyzed using content analysis techniques. The results of the study show that every aspect of finance includes financial management skills, planning, budgeting, control and savings. Therefore, efforts need to be implemented to improve the level of financial management and financial behavior especially among Malaysians

Keywords: Determination, Financial Management, Debt, Behavior

Introduction

Finance is a source of income, expenditure, savings, investment, and protection. This process of managing finances can be manifested with individual budgets or financial plans (Desa, 2021). Abdul-Rahman and Zulkifyly (2016) defined financial management as an art and science applied to organizations and individuals using economic theory and accounting objectives. Apart from that, Shah et al (2022) defined financial management as a set of behaviors in cash and credit management, financial planning, insurance, retirement, investment and estate planning. Life is getting more and more difficult due to the effects of the worsening economic crisis in our country now. Furthermore, daily living expenses are changing in response to the current economic turmoil, following the global economic turmoil affecting the national economy. Among other crises are the effects of the increase in the price of goods, the increase in sales prices, and the increase in the price of housing properties. In Malaysia, more than

47% of young individuals aged 18 to 35 have large debts due to enjoying a luxurious lifestyle that is beyond their means. Many are involved in large debts due to insufficient financial planning and financial literacy, leading to bankruptcy. marital breakdown, criminal stress, and personal misery (Reid, 2003). Until July 2023 there are 14,000 cases of bankruptcy among the youth under RM50,000 (Mstar, 2023). Most people do not know if they will be able to buy good housing, a new vehicle or the latest electronic equipment, yet they still choose to try to increase their liabilities (Murugiah, 2016). This arrangement has produced a cautious scenario as most of those who are declared bankrupt these days are young people. In fact, from 2016 to 2020, 60.73% of 25 to 44-year-olds in Malaysia were declared bankrupt, according to the Malaysian Insolvency Department (Malaysian Insolvency Department, 2021). Now, a 70% increase in the number of bankrupt borrowers has exceeded 46,000 people due to being unable to repay loans due to the Covid-19 pandemic and the increasing cost of living (FMT Reporters, 2022). From this fact it can be assumed that individuals still lack financial literacy and do not spend their money appropriately. Prevention can be done by having good financial planning and economic understanding.

Methodology

Research methodology includes methods, methods, and approaches used in achieving the goals and objectives of the study. In achieving this objective, the method used is through the library method. Library methods such as extracting news, reading articles and taking content from scientific discussions is also a method that has been implemented to identify the causes of financial problems in Malaysia. Searching for internet sources, books, newspapers, and articles related to financial problems makes the information studied can be collected and accessed in more detail. This can indirectly help in gathering the desired information data in order to achieve the objectives of the study

Effects of Lack of Consciousness

Many previous studies focused on the spending habits of individuals, such as households and professionals. Financial management among Malaysians needs to be improved to ensure financial well-being (Suresh & Sieng, 2023). According to Muhammad et al (2015), a study on household financial management shows that the Chinese have greater income, expenditure and savings than other races. Research on financial awareness and spending was conducted by (Muhammad et al., 2015). According to their research, financially literate people are more likely to create various financial strategies for themselves. This is due to the fact that financial plans are important for future use. In addition, the findings of Ali et al (2013) study shows that having financial knowledge can improve well-being through more frugal spending patterns. Controlling expenses without increasing the amount of debt can help avoid stress in life. There are a few young people who often measure their standard of living based on the things they own such as the number of vehicles, credit cards and so on by spending extravagantly and even going into debt just to get recognition from colleagues and others. Youth who have a negative attitude towards money are seen to tend to spend money unplanned and cause unwise debt management (Abdullah & Sabri, 2016). Malaysia is also indirectly facing the problem of high cost of living. Kuala Lumpur has generally been ranked as the 96th most expensive city in the world according to the World Cost of Living Survey 2017. The issue of the rising cost of living in Malaysia is a recurring issue that has plagued the country for a long time (Wahab et al., 2022). In recent times, Malaysia has experienced an increase in the price of goods which has led to difficulties in life, especially for the B40 group

with low incomes. In fact, it has been stated by industry players that the increase is expected to be between 40% to 60% due to the increase in logistics and raw material costs and due to the implementation of the minimum wage of RM1,500 (Mikail) (Firdaus, 2022). The source of financial education is the main source in generating financial knowledge further creating a close relationship with financial behavior (Zaimah et al., 2023).

Debt is described as al-qard or a loan where a person is obliged to pay or repay the borrowed item. In terms of terms, a debt is a contract that transfers ownership to someone. A debt is anything that needs to be paid, settled, or returned. Islam emphasizes the need to pay debts. Every Muslim who owes money must repay all their debts. Islam places great emphasis on debt repayment so much so that the descendants of the deceased are still obliged to do so. Luxury consumption is gaining popularity recently all over the world. To fulfill their needs, consumers spend more and more money. Many Muslim countries, such as Saudi Arabia, Malaysia, Pakistan, Kuwait, and Lebanon also show this pattern. Many Muslims today prefer to live a life of luxury that others consider a reflection of their socioeconomic status. Unfortunately, it causes them to experience financial problems (Biplob & Abdullah, 2021). For example, excess spending on luxury goods is a major contributor to Malaysian family debt. The Census and Economic Information Center (CEIC) reports that household debt in Malaysia has recently risen to alarming levels. In Malaysia, the ratio of household debt to GDP was 86.1% in 2013, 86.78% in 2014, and 82.71% in 2019. To change such consumer behavior, the government and its affiliated organizations are working hard. However, it seems that their performance was unsuccessful. Many financial issues (poor liquidity, insufficient savings, credit defaults, insolvency) increase as a result (Biplob & Abdullah, 2021). 100,610 Malaysians were declared bankrupt between 2013 and 2017, with 60 percent of them aged between 18 and 44 (Bank Negara Malaysia, 2018). This shows an increase in bankruptcy among young people due to the nature of debt. According to O'Neill et al (2005) and Lee and Sabri (2017), those who experience worse financial well-being are typically young, have health problems, do not own their own home, live in debt, and have low incomes. According to a study conducted by Dali et al (2020), during the COVID-19 pandemic, many people lost their jobs, including the youth, causing the youth to be in debt and burdened to pay the debt on a monthly basis, causing the financial management of the youth to go awry. unorganised. According to Ab Rahim et al (2012), those who are often associated with debt symptoms are from poor families. However, in this modern world, not only the poor are involved in debt but the rich and the middle class are increasingly bearing the burden of debt. This explains that debt has become a way of life in today's society. Hamid et al (2015) stated that the increase in household debt can have a very large impact including the unemployment rate and loss of income will increase if there is a high household debt accompanied by a financial crisis. In addition, high debt exposes households to the risk of fluctuations in the economy. Debt activities today have become the basis of community life. Allah SWT has explained the rules in accounts receivable by ordering us to make a written agreement so that we do not neglect to explain it later (Bank Muamalat, 2022).

Steps to Overcome

Financial management and financial planning can help people spend and save money wisely. With the worsening economic situation, financial planning and management should be emphasized before spending. The head of the family needs to plan and control the flow of money in expenses to avoid defects from aspects of the main needs in maqasid al-shari'ah. According to the WHO (World Health Organization), it is estimated that more than 800

thousand people die by suicide every year (Nainggolan, 2021). According to a study conducted by Choi et al (2019) estimated that adults aged 60 to 74 years in the poverty group had a higher risk of suicide than those with higher incomes in the same age group. The use of too much credit, lack of planning, excessive spending, poor buying and spending skills, low wages, and lack of financial education, as well as lack of financial knowledge, have resulted in huge debt for Malaysians (Thung et al., 2012). According to the facts of bankruptcy records, it happens a lot due to the use of credit cards especially among young people. Therefore, awareness, knowledge and skills related to financial management among consumers need to be improved through effective consumer education methods (Alias, 2022). The Malaysian Insolvency Department recorded 36,173 bankruptcy cases from 2017 to October 2021, with the youth group under 44 being the most affected (Malaysian Insolvency Department, 2021). The increase in bankruptcy is due to extravagant living that exceeds their limits (Murugiah, 2016). According to Reid (2003), people fall into huge debt as a result of poor financial planning and financial literacy, which leads to bankruptcy, marital breakdown, criminal pressure, and personal suffering. In addition, Malaysians are exposed to various types of virtual fraud due to the limitations of Malaysians' financial literacy. Based on the Malaysian Communications and Multimedia Commission (SKMM) portal, among the forms of fraud are phishing, identity theft, opinion poll fraud and others. Phishing is one example of e-commerce fraud. The value of losses experienced by consumers also increased and is said to reach a value of almost RM12 million (Alias et al., 2022). In addition, the study conducted by Alias et al (2022) found that the elderly are more likely to be exposed to cyber fraud such as phishing because they are a vulnerable group who are not only physically weak but also mentally weak. The trend of online investment fraud continued to record the highest loss value last year in 2023 when a total of 5,389 cases were recorded with a loss value reaching RM 472 million (Utusan, 2024). Among other problems found in this study is that some people do not apply Islamic guidelines in their spending habits. the result of their habit is waste in their funding and spending. While Islam forbids and does not encourage its people to waste because waste is a negative human behavior that often arises when people are blessed with a lot of sustenance and blessings. There is no doubt that various initiatives are implemented by the Government to ensure that civil servants are always financially literate. Exposure to various training and courses involving financial management in government organizations and departments has contributed to a good level of knowledge among civil servants. According to a study by Ishak & Yazid (2020), the level of financial knowledge of civil servants is relatively good compared to financial attitudes which are still at a moderate level. However, financial knowledge without a good financial attitude does not guarantee financial well-being (Zaimah et al., 2014). The main cause of increasing financial problems among civil servants is said to be linked to lifestyles beyond their means (Mohd Azam & Abd Basir, 2018). This causes spending patterns among civil servants to be difficult to control, especially since there are too many opportunities and product diversity in the market (Ishak & Yazid, 2020). Therefore, the pattern of spending on asset ownership among civil servants should be paid attention to allow them to be in good financial well-being (Muhamad & Tambi, 2023).

Conclusion

Awareness of individual and family financial management needs to be improved. Knowledge of investment instruments that can improve living standards should be sought. In addition, the need to create an emergency fund as a fund that is needed when facing hardship is very necessary to deal with undesirable things happening in the future. This shows that financial

literacy and financial management applications need to be fostered from the beginning to curb problems in the community and keep them away from spending and acting according to lust.

References

- Abdul-Rahman, A., & Zulkifly, W. (2016). Faktor penentu pengurusan kewangan: kes mahasiswa Universiti Kebangsaan Malaysia. *Jurnal Personalia Pelajar*, 19(2).
- Ahmad, N. H., Isa, A. M., & Zainol, Z. (2022). Personal Bankruptcy in Malaysia and Singapore: An Empirical Analysis. *Journal of Economics and Sustainability (JES)*, 4(1), 33-47.
- Aladdin, Y. H., & Ahmad, A. (2017, April). Tahap literasi kewangan di kalangan mahasiswa. In *Kertas kerja, International Conference on Global Education V Global Education*.
- Brown, M., & Graf, R. (2013). *Financial literacy, household investment and household debt: Evidence from Switzerland*. University of St. Gallen Working Paper on Finance 13-1. University of St. Gallen, St. Gallen, Switzerland. Available at: https://www.alexandria.unisg.ch/Publikationen/Zitation/Martin_Brown/219130.
- Chatterjee, S. (2013). Borrowing decisions of credit constrained consumers and the role of financial literacy. *Economics Bulletin*, 33(1), 179-191.
- Department of Statistics Malaysia. (2022). Statistik utama tenaga buruh, Malaysia, Suku Pertama 2017 - Suku Kedua 2022. <https://newss.statistics.gov.my/newss-portalx/ep/epFreeDownloadContentSearch.seam?contentId=168841&actionMethod=ep%2FepFreeDownloadContentSearch.xhtml%3AcontentAction.doDisplayContent&cid=338298>
- Department of Statistics Malaysia. (2020). Laporan Survei Pendapatan Isi Rumah dan Kemudahan Asas 2019. https://www.mof.gov.my/arkib/ekonomi/ek_main.html
- Department of Statistics Malaysia. (2022). Statistik utama tenaga buruh, Malaysia, Suku Pertama 2017 - Suku Kedua 2022. <https://newss.statistics.gov.my/newss-portalx/ep/epFreeDownloadContentSearch.seam?contentId=168841&actionMethod=ep%2FepFreeDownloadContentSearch.xhtml%3AcontentAction.doDisplayContent&cid=338298>
- Department of Statistics Malaysia. (2022). Jadual KDNK mengikut Negeri 2015 – 2021. <https://cloud.stats.gov.my/index.php/s/7jwpmMGfvYYvu9L/download>
- Dvorak, T., & Hanley, H. (2010). Financial literacy and the design of retirement plans. *The Journal of Socioeconomics*, 39(6), 645-652
- FMT Reporters. (2022). 32,000 lagi dijangka muflis jika OPR terus naik, kata persatuan. Free Malaysia Today (FMT). <https://www.freemalaysiatoday.com/category-bahasa/tempatan/2022/07/11/32000-lagi-dijangka-muflis-jika-opr-terus-naik-kata-persatuan/>
- Mokhtar, N., & Husniyah, A.R. (2017). Determinants of financial well-being among public employees in Putrajaya, Malaysia. *Pertanika Journal Social Science & Humanities*, 25(3), 1241-1260.
- Azmi, S. N. S., Rahman, S. A., Ibrahim, S. (2019). Amalan pengurusan kewangan mahasiswa. *Journal of Business ...*, [kuim.edu.my](http://www.kuim.edu.my), <http://www.kuim.edu.my/journal/index.php/JBI/article/view/541>
- Alias, A. (2022). *Keperluan hidup mendesak punca muflis*. Berita Harian; Berita Harian. Retrieved from <https://www.bharian.com.my/berita/nasional/2022/06/970678/-keperluan-hidup-mendesak-punca-muflis>

- Cho, Y. J. (1984). *Capital market structure and barriers to financial liberalization* (No. 106). Development Research Department, Economics and Research Staff, World Bank.
- Choi, J. W., Kim, T. H., Shin, J., & Han, E. (2019). Poverty and suicide risk in older adults: a retrospective longitudinal cohort study. *International journal of geriatric psychiatry*, 34(11), 1565-1571.
- Desai, C. A. (2017). The cross-section of consumer lending risk. *Journal of Empirical Finance*, 42, 256-282.
- Hassim, N., & Ramli, Z (2022). Pengurusan Kewangan Generasi Milenial Di Seremban 2, Seremban, Negeri Sembilan. *Jurnal Wacana Sarjana*, spaj.ukm.my, <https://spaj.ukm.my/jws/index.php/jws/article/view/466>
- Lee, M. P., & Sabri, M. F. (2017). Review of financial vulnerability studies. *Archives of Business Research*, 5(2).
- Reid, C. (2003), Financial literacy: The teachers' perspective. Available from: [http://www.asic.gov.au/asic/pdf/lib.nsf/add907be1c708f42ca6aca0007f465/34f311ce00c195f1ca256d8e00271050/\\$FILE/Christine_Reid_finlit_presentation.pdf](http://www.asic.gov.au/asic/pdf/lib.nsf/add907be1c708f42ca6aca0007f465/34f311ce00c195f1ca256d8e00271050/$FILE/Christine_Reid_finlit_presentation.pdf).
- Thung, M. C., Ying Kai, C., Nie, S. F., Wan Chiun, L., & Tsen, C.T. (2012). Determinants of saving behaviour among the university students in Malaysia. *Universiti Tunku Abdul Rahman, May*, 109. <http://eprints.utar.edu.my/607/1/AC-2011-0907445.pdf>
- Muhamad, R. B., Tambi, N., & dan Persekutaran, P. (2023). Corak perbelanjaan dan pemilikan aset dalam kalangan penjawat awam. *Geografia-Malaysian Journal of Society and Space*, 19(1), 119-132.
- Murugiah, L. (2016). The level of understanding and strategies to enhance financial literacy among Malaysian. *International Journal of Economics and Financial Issues*, 6(3), 130–139.
- Nainggolan, Dapot. (2021). Kajian Teologis Terhadap Tindakan Bunuh Diri. *JURNAL LUXNOS*, 7(1), 20-35, ISSN 2722-3809, Sekolah Tinggi Teologi Pelita Dunia, <https://doi.org/10.47304/jl.v7i1.53>
- Noraihan, M. Z., Hasmida, M. H., & Jaafar, S. B. (2013). Hubungan antara amalan pengurusan kewangan pelajar dan Kursus PA305: Pengurusan kewangan peribadi-Satu kajian kes di Politeknik Tuanku Sultanah Bahiyah. In *Technical and Education Colloquium (TEC) PTSB (25-31)*.
- Van Rooij, M., Lusardi, A., & Alessie, R. (2011). Financial literacy and stock market participation. *Journal of Financial economics*, 101(2), 449-472.
- Schuh, A. B., Filho, M. P., & Coronel, D. (2019). Determinants of the Default Rate of Individual Clients in Brazil and the Role of Payroll Loans. *Economics Bulletin*, 39(1), 395-408.
- Suresh, P., & Sieng, L. W. (2023). Tingkah laku pelajar universiti dalam penggunaan, perbelanjaan dan pelaburan. *Journal of Business Management and Accounting*, 13(1) January, 129-152. <https://doi.org/10.32890/jbma2023.13.1.6>
- Yakob, R., Janor, H., & Khamis, N. (2015). Tahap literasi kewangan dalam kalangan pelajar universiti awam: Kajian di Universiti Kebangsaan Malaysia. *Jurnal Personalita Pelajar*, 18(1).
- Zaimah, R., Yusof, N. M., & Sarmila, M. S. (2023). Hubungan Pengetahuan dan Tingkah Laku Kewangan dengan Perancangan Kewangan Persaraan dalam Kalangan Generasi Milenial. *Akademika*, 93(1), 373-387.