DETERMINANTS OF HOUSEHOLD OVER-INDEBTEDNESS

NINALYN BINTI FRIDRICT

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTANCY
UNIVERSITI MALAYSIA SABAH

2016

PUMS 99 :1

UNIVERSITI MALAYSIA SABAH

BORANG PENGESAHAN TESIS

JUDUL KAJIAN: DETERMINANTS OF HOUSEHOLD OVER-INDEBTEDNESS

IJAZAH: MASTER OF BUSINESS ADMINISTRATION

SAYA NINALYN BINTI FRIDRICT SESI PENGAJIAN 2015/2016

MENGAKU MEMBENARKAN TESIS INI DISIMPAN DI PERPUSTAKAAN UNIVERSITI MALAYSIA SABAH DENGAN SYARAT-SYARAT KEGUNAAN SEPERTI BERIKUT;

1. Tesis adalah hak milik universiti malaysia sabah.
2. Perpustakaan universiti malaysia sabah dibenarkan membuat salinan untuk tujuan pengajian sahaja.
3. Perpustakaan dibenarkan membuat salinan tesis ini sebagai bahan pertukaran antara institusi pengajian tinggi.
4. Sila tandakan [√]

[ ] SULIT (Mengandungi maklumat yang berdarjah keselamatan atau kepentingan Malaysia seperti yang termaktub dalam AKTA RAHSIA RASMI 1972)

[ ] TERHAD (Mengandungi maklumat TERHAD yang telah ditentukan oleh organisasi/ badan di mana penyelidikan dijalankan)

[/] TIDAK TERHAD

Disahkan Oleh

(TANDATANGAN PENULIS)

(TANDATANGAN PERPUSTAKAAN)

Alamat Tetap : IBU PEJABAT POLIS DAERAH, P/S 100, 89007, KENINGAU SABAH.

TARIKH: 08 SEPTEMBER 2016

(NAMA PENYELIA)

DR. MOHD. RAHIMIE ABD. KA...
Timbalan Dekan (Kebajikan Pelaj...
Pusat Pengajian Pascasiswazah
Universiti Malaysia Sabah 8/9/2016

Catatan:

- Jika tesis ini SULIT dan TERHAD, sila lampirkan surat daripada pihak berkuasa/ organisasi berkenaan dengan menyatakan sekali dan tempoh tesis ini perlu dikelaskan sebagai SULIT dan TERHAD.
- Tesis dimaksudkan sebagai tesis bagi Ijazah Doktor Falsafah dan Sarjana Secara Penyelidikan atau Disertasi bagi pengajian secara kerja kursus dan Laporan Projek Sarjana Muda (LPSM)

DETERMINANTS OF HOUSEHOLD OVER-INDEBTEDNESS

NINALYN BINTI FRIDRICT

THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION

FACULTY OF BUSINESS, ECONOMICS AND ACCOUNTANCY
UNIVERSITI MALAYSIA SABAH
2016

DECLARATION

I hereby declare that the material in this is my own except for quotations, excepts, equations, summaries and references, which have been duly acknowledged.

5th September 2016

Ninalyn Binti Fridrict
MB1512134T

NAME : **NINALYN BINTI FRIDRICT**

MATRIC NO. : **MB1512134T**

TITLE : **DETERMINANTS OF HOUSEHOLD OVER-INDEBTEDNESS**

DEGREE : **MASTER OF BUSINESS ADMINISTRATION**

VIVA DATE : **26th AUGUST 2016**

CERTIFIED BY

1. **SUPERVISOR**
   DR MOHD RAHIMIE BIN ABD KARIM

DR. MOHD. RAHIMIE ABD. KARI
Timbalan Dekan (Kebajikan Pelaja
Pusat Pengajian Pascasiswazah
Universiti Malaysia Sabah

2. **CO SUPERVISOR**
   DR ZAITON OSMAN

ACKNOWLEDGEMENT

I want to raise gratitude to my supervisors, Dr Mohd Rahimie and Dr Zaiton, for their patience and continuous supports and advices that helped me in completing this dissertation. I also want to thank the panels who contributed constructive criticisms and comments that helped me in completing this dissertation. I would also like to thank my mother Rohimah Jamileh, my father Fridrict Jinor, my fiancé Herry J, my brothers Fredicksyenito and Haryanto, my sister Ollerenshyia and all my family members who supported me financially for this dissertation and always be there to motivate and encourage me. Last but not least, I thank my fellow friends that have assisted me throughout completing this dissertation.

God bless you all.

Ninalyn Fridrict
5th September 2016

ABSTRACT

This study examined the effects of attitude, debt literacy, age, education level, gender and marital status towards over-indebtedness among respondents from Kota Kinabalu Sabah. The study was undertaken based on survey questionnaire and analysed using the Smart PLS. Based on the feedback from 152 respondents, the findings revealed that attitude, debt literacy and gender had significant effect on household over-indebtedness while the relationship between age, education level and marital status with household over-indebtedness are rather insignificant statistically.

ABSTRAK

PENENTU - PENENTU BEBANAN HUTANG BERLEBIHAN ISI RUMAH

Kajian ini adalah bertujuan mengkaji kesan sikap, kecekapan mengenai hutang, umur, tahap pendidikan, jantina dan status responden Kota Kinabalu Sabah terhadap masalah bebanan hutang berlebihan. Data telah dikumpulkan dengan menggunakan pendekatan soal selidik dan dianalisis menggunakan Smart PLS. Berdasarkan respons yang diterima daripada 152 responden, hasil kajian mendapati sikap, kecekapan mengenai hutang, umur, tahap pendidikan, jantina dan status perkahwinan mempunyai kesan signifikan ke atas masalah bebanan hutang berlebihan. Hasil kajian menunjukkan bahawa sikap, kecekapan mengenai hutang dan jantina mempunyai kesan signifikan terhadap masalah hutang berlebihan manakala umur, tahap pendidikan dan status didapati tidak mempunyai kesan signifikan terhadap masalah bebanan hutang berlebihan.

TABLE OF CONTENTS

LIST OF FIGURE

LIST OF TABLES

LIST OF ABBREVIATIONS

AVE	Average variance extracted
BNM	Bank Negara Malaysia
GDP	Gross domestic product
SPSS	Statistical package for social science

LIST OF APPENDIXES

LIST OF GLOSSARY

Age	refers to the respondents' age categorized as young household or old household (Keese, 2012).
Attitude	refers to the household behavior that would influence their decision making related to debt (Harrison et al, 2015).
Anxiety	refers to financial stress or the factor that measure the extent to which respondents was experiencing negative effect due to their over-indebtedness (Harrison et al., 2015).
Debt Literacy	refers to the level of proficiency of respondents in terms of evaluating debt contracts and making financial decisions related to debt (Lusardi and Tufano, 2009).
Demographic Variables	refer to the household basic information such as age, education level, gender and marital status (Keese, 2012).
Education Level	refers to the respondents' education level categorized as household with low education level or household with high education level (Keese, 2012).
Gender	refers to the respondents' gender categorized as male household or female household (Keese, 2012).
Household	refers to a person or group of related or unrelated persons who usually live together and make common provision for food and other living essentials (Malaysian Department of Statistic, 2016).
Marital Status	refers to the respondents' marital status categorized as married household or unmarried household (Keese, 2012).
Over-indebtedness	refers to heavy debt loads of a household that causes financial insecurity and financial instability (Lusardi and Tufano, 2009).
Utility-for-Lifestyle	refers to materialism or negatively loaded factor which measures the individual's use of credit for the purpose of supporting an active social life such as buying expensive things to follow current trends (Harrison et al., 2015).
Utility-for-Investment	refers to the factor which measures the extent to which the individual believed that the debt taken was a means of investment that would lead to better paid in the future (Harrison et al., 2015).

LIST OF GLOSSARY

Age	refers to the respondents' age categorized as young household or old household (Keese, 2012).
Attitude	refers to the household behavior that would influence their decision making related to debt (Harrison et al, 2015).
Anxiety	refers to financial stress or the factor that measure the extent to which respondents was experiencing negative effect due to their over-indebtedness (Harrison et al., 2015).
Debt Literacy	refers to the level of proficiency of respondents in terms of evaluating debt contracts and making financial decisions related to debt (Lusardi and Tufano, 2009).
Demographic Variables	refer to the household basic information such as age, education level, gender and marital status (Keese, 2012).
Education Level	refers to the respondents' education level categorized as household with low education level or household with high education level (Keese, 2012).
Gender	refers to the respondents' gender categorized as male household or female household (Keese, 2012).
Household	refers to a person or group of related or unrelated persons who usually live together and make common provision for food and other living essentials (Malaysian Department of Statistic, 2016).
Marital Status	refers to the respondents' marital status categorized as married household or unmarried household (Keese, 2012).
Over-indebtedness	refers to heavy debt loads of a household that causes financial insecurity and financial instability (Lusardi and Tufano, 2009).
Utility-for-Lifestyle	refers to materialism or negatively loaded factor which measures the individual's use of credit for the purpose of supporting an active social life such as buying expensive things to follow current trends (Harrison et al., 2015).
Utility-for-Investment	refers to the factor which measures the extent to which the individual believed that the debt taken was a means of investment that would lead to better paid in the future (Harrison et al., 2015).

CHAPTER 1

INTRODUCTION

1.1 Background of Study

Generally, a household is defined as a person or group of related or unrelated persons who usually live together and make common provision for food and other living essentials (Malaysian Department of Statistic, 2016). Alderman, Pierre-Andre, Lawrence, John, and Ravi (1995) developed two household economic models so as to define household. These include a collective model of household behavior and unitary model of household. The collective model explains that two or more players are said to represent an entire household, whereas unitary model explains that only one person is said to represent an entire household (Alderman et al., 1995). These two models were extensively used by global researchers in their efforts to understand about household behavior.

Nevertheless, researchers who used primary data for their study tend to use the unitary model of household. This study applied Alderman et al.'s (1995) unitary model so as to define household. The application of a unitary model in order to define household was clarified by other past researchers. According to Mattila-Wiro (1999), household is a unit, represented by an individual, who behaves realistically and may as well be regarded as resources provider in an economy. It was also highlighted by Ellis (1988) that decisions related to a household are made jointly by a particular unit whereby all members within the household have the similar preferences and functions.

As it is one of the key players that aid in determining the level of a country's economy and financial stability, household also need to play important roles. One major global issue which raised concern of all nations was the household over-indebtedness. This is whereby the amount of household debt in most of today's nation kept on increasing from year to year since early 2000 (Collins, 2016). This situation reflected that households from all over the world are having more and more debts nowadays. Lusardi and Tufano (2009) defined over-indebtedness as debt problems reflected by heavy debt loads which cause financial insecurity and instability.

The household over-indebtedness was generally higher in developing countries such as Thailand, China, Korea and Malaysia (Wang, Lu, and Malhotra, 2011; Sabri, Cook, and Gudmunson, 2012; Kim, Setterfield, and Mei, 2014). The level of household debt was commonly indicated by the household debt to gross domestic product (GDP) ratio. This ratio indicated the amount of debt carried by an average household in relation to their income earned (Mian and Sufi, 2015). Higher ratio reflected that an average household carries an amount of debt most likely to be similar to the amount of their income. T

he level of household debt among the developing countries is at a distressing level because most of them recorded more than 50 percent of household debt to GDP ratio (Aruna, 2016). Upsettingly, Malaysia was one of the developing countries that recorded a high and increasing household debt to GDP ratio (Aruna, 2016). Malaysia recorded with an 86.8 percent of the household debt to GDP ratio in 2014 and then it increased to 89.1 percent in 2015 (BNM, 2016). Therefore, the Malaysian household over-indebtedness is an issue that needs to be addressed by the nation.

The determinants of such behavior need to be studied. This is because the Malaysian household debt to GDP ratio reflected that an average household in this country carries an amount of debt most likely to be similar to the amount of their income. If this situation is overlooked and ignored, it may become worse. Household in this country may have more debts than they can repay. Household with lots of debts and inability to make repayment created financial insecurity and instability. These households may end up become a bankrupt (Aruna, 2016). Consequently, this will affect the overall financial stability of this country.

The household over-indebtedness caused a high and increasing number of people in Malaysia who had been declared as a bankrupt. There were 19,575 persons adjudicated as bankrupt in 2012 which the number had increased to 21,987 persons adjudicated as bankrupt in 2013 (BNM, 2016). This enlightened that Malaysian household over-indebtedness is getting severe and may become worse if no proper action is taken to correct it. Thus, there is a need to promote financial stability in the future. One starting point can be to study the determinants of this behavior (Aruna, 2016).

Accordingly, many researchers came forward and studied on the household over-indebtedness behavior. Some studied about the predictors while some studied about the effects of over-indebtedness. Moreover, previous researchers who studied on over-indebtedness commonly used the Theory of Planned Behavior as the fundamental theory. This theory was introduced by Ajzen (1991) whereby one of the vital concepts that was emphasized by this theory was the concept that individuals' attitude determine an individual's intention to act on a particular behavior. For instance, individuals' attitude toward debt determines the over-indebtedness behavior (Harrison, Chudry, Waller, and Hatt, 2015). In general, the attitude concerning a behavior refers to an individual's appraisal on that particular behavior whereby it can be either positive appraisal or negative appraisal (Ajzen, 1991). Ajzen (1991) enlightened that a person's intention to conduct a certain behavior would be stronger when the attitude concerning the particular behavior is more promising. However, the significance of the predictor is likely to be different depending on the behavior and the environment that wished to be studied.

Furthermore, other predictors can also be added along with the existing predictors in the theory if it is proven significant (Ajzen, 1991). For instance, many researchers utilized the theory as a foundation for their studies to forecast over-indebtedness behavior and expanded the theory by including other predictors which include debt literacy (Lusardi and Tufano, 2009; Van Ooijen and Van Rooij, 2016) and demographic variables (Drentea, 2000; Endut and Toh, 2016). These researchers accentuated that both debt literacy and demographic variables are significant predictors of over-indebtedness behavior.

Lusardi and Tufano (2009) defined debt literacy as the proficiency of an individual in terms of evaluating debt contracts and making financial decisions related to debt. They claimed that debt literacy as a predictor of over-indebtedness behavior was neglected causing such problem to still emerge in nowadays circumstances. On the other hand, Keese (2012) described demographic variables as respondents' basic information such as age, gender, education level, marital status and so on. Keese (2012) also claimed that there was insufficient study on the effects of age, gender, education level and marital status on over-indebtedness.

Other past researchers such as Naruetharadhol, Ketkaew, and Kannarat (2015) and Nau, Dwyer, and Hodson (2015) also argued on the findings about the effects of certain predictors such as age on over-indebtedness. In summary, a study needs to be carried out in order to find out the effects of attitude, debt literacy and several demographic variables including age, gender, education level and marital status on household over-indebtedness with an aim to gain further insights so as to aid in lessening the existing debt problem. Hence, this study was carried out to attain the stated aim. Next, the research problems were discussed in details.

1.2 Research Problems

The healthiness of household sector is one of the major variables that determine financial stability (IMF, 2006) hence it is important to ensure that the household sector is protected from sudden unfavorable economic condition. One of the common measures used to look at whether household sector is healthy or not is by looking at the household debt. Household debt refers to the amount of liabilities that a household is required to pay to a creditor at a certain point of time (OECD, 2016). Since early 2000s era, household debt around the world kept on increasing until recently it reached to an alarming level for most countries. Such situation had attracted the interest of several scholars in doing research about the behavior of over-indebtedness especially among household in certain locations. In specific, these researchers tried to understand the determinants and/or effects of over-indebtedness behavior. From the previous studies conducted by the researchers, some problems and/or literature gaps were underlined.

One of the vital problems addressed was the need to further study specifically on the determinants of over-indebtedness (Flores and Vieira, 2014). Flores and Vieira (2014) proposed that further studies should focus more on examining the key determinants of over-indebtedness. This is because they found out that there was limited research done in terms of determinants of over-indebtedness. Previous researchers focused more on studying the effects of the over-indebtedness instead of its determinants. Hence, this study focused on studying the determinants of over-indebtedness so as to fill in the gap highlighted by Flores and Vieira (2014).

In efforts to understand the determinants of over-indebtedness, some researchers studied about the effects of attitude as one of the predictors toward the over-indebtedness behavior (such as: Harrison et al., 2015; Norvilities and Mendes, 2013). Captivatingly, there were arguments regarding attitude as a significant determinant of over-indebtedness. This is whereby there were divergent findings attained by diverse researchers. Harrison et al. (2015) developed four dimensions of attitude comprising of anxiety, utility-for-lifestyle, utility-for-investment and awareness.

The first dimension of anxiety refers to financial stress or the factor that measure the extent to which individuals was experiencing negative effects due to their over-indebtedness (Harrison et al., 2015). For instance, inability to sleep due to worries concerning to the amount of debt owed, feeling of isolation due to debt owed and job performance was affected by overthinking about debt owed. In their study, Harrison et al. (2015) found out positive relationship between anxiety and over-indebtedness. This is whereby a person who had more anxiety in relation to over-indebtedness had higher debt load.

Thus, a person who had less anxiety in relation to over-indebtedness had lower debt load. Their finding was aligned with similar finding attained by other researchers such as Haultain, Kemp, and Chernishenko (2010), Meier and Sprenger (2010), Peltier, Pomirleanu, Endres, and Markos (2013) and Achtziger et al. (2015). Nevertheless, there were other researchers such as McCarthy (2011), Norvilitis, Merwin, Osberg, Roehling, Young, and Kamas (2006), Archuleta, Dale, and Spann

(2013), Norvilities and Mendes (2013), and Zinman (2014) who attained conflicting finding whereby they found out negative relationship between anxiety and over-indebtedness. This is whereby they found out that a person who had more anxiety in relation to over-indebtedness had lower debt load. Thus, a person who had less anxiety in relation to over-indebtedness had higher debt load. The diverse findings about the relationship between anxiety as one of the dimensions of attitude and over-indebtedness created argument. The argument raised was in terms of whether anxiety increases the propensity of a person to be over-indebted or anxiety acts as a shield of a person from being over-indebted. This study provided additional insight in answering this argument.

The second dimension of attitude, utility-for-lifestyle refers to materialism or negatively loaded factor which measures the individual's use of credit for the purpose of supporting an active social life such as buying expensive things to follow current trends (Harrison et al., 2015). Some examples related to utility-for-lifestyle include the use of debt so as to have good social life, luxuries, and experiencing the latest lifestyle as well as minimizing spending so as to minimize debt. In their study, Harrison et al. (2015) found out positive relationship between utility-for-lifestyle and over-indebtedness. This is whereby the more a person used debt as a utility-for-lifestyle, the higher his or her debt load was. Thus, the less a person used debt as a utility-for-lifestyle, the lesser his or her debt load was. Their finding was aligned with similar finding attained by other researchers such as Falahati, Paim, Ismail, Haron, and Masud (2011), Nepomuceno and Laroche (2015) and Flores and Vieira (2014).

The third dimension of attitude, utility-for-investment refers to the factor which measures the extent to which the individual believed that the debt taken was a means of investment that would lead to better paid in the future (Harrison et al., 2015). Some examples of utility-for-investment include the worthiness of debt owed in the future, high chance of gaining more money when buying share or gambling using debt, expectation to have more earning in future when using debt for investment purpose and perspective that utilization of debt as capital is a good investment. In their study, Harrison et al. (2015) found out positive relationship between utility-for-investment and over-indebtedness, whereby the more a person used debt as a utility-for-investment, the higher his or her debt load was. Thus, the less a person used debt as a utility-for-investment, the lesser his or her debt load was. Their finding was aligned with similar finding attained by other researchers such as Brown, Garino, and Taylor (2013) and Keese (2012). Nevertheless, there were other researchers such as Brennan, Zevallos, and Binney (2011) who attained conflicting finding whereby they found out negative relationship between utility-for-investment and over-indebtedness. This is whereby these researchers found out that the more a person used debt as a utility-for-investment, the lesser his or her debt load was. Thus, the less a person used debt as a utility-for-investment, the higher his or her debt load was. The diverse findings about the relationship between utility-for-investment as one of the dimensions of attitude and over-indebtedness created argument in terms of whether utility-for-investment increases propensity of a person to be over-indebted or utility-for-investment acts as a shield of a person from being over-indebted.

The last dimension of attitude, awareness refers to the factor which measures a person's self-reported knowledge of their debt burden and the conditions for its repayment (Harrison et al., 2015). For instance, perspective of having a good insight on how own debt works, repayment terms related to debt and the amount of debt owed. In their study, Harrison et al. (2015) found out negative relationship between awareness and over-indebtedness, whereby the more a person aware of his or her debt, the lower his or her debt load was. Thus, the less a person aware of his or her debt, the higher his or her debt was. Their finding was aligned with similar finding attained by other researchers such as Haultain et al. (2010) and Brennan et al. (2011). Nevertheless, there were researchers such as Webley and Nyhus (2001) who argued on the significant effect of awareness on over-indebtedness. They claimed that over-indebtedness had become culturally sanctioned in people whereby it had become a common part of individuals' life until some of them had high level of acceptance on over-indebtedness although they had high awareness about their debt.

Apart from the arguments related to attitude as a significant predictor of over-indebtedness, this study also tried to fill in another gap which was emphasized by Lusardi and Tufano (2009). This is whereby they argued that previous researchers have neglected an important determinant of over-indebtedness, which is debt literacy. Debt literacy is the proficiency of an individual in terms of evaluating debt contracts and making financial decisions related to debt. Lusardi and Tufano (2009) clarified those former researchers who studied about over-indebtedness excessively focused on a general determinant, which is financial literacy instead of debt literacy. Although several researchers had tried to study on debt literacy such as Van Ooijen and Van Rooij (2016), Lusardi and Tufano (2009) and Lusardi and Mitchell (2014), it was still very limited. More study is necessary to support the finding attained by these researchers whereby they found out negative relationship between debt literacy and over-indebtedness. Hence, this study provided additional understanding about the concerned argument.

On the other hand, other predictors commonly studied by past researchers were demographic variables. Keese (2012) described demographic variables as respondents' basic information such as age, gender, education level, marital status and so on. Many demographic variables were studied previously such as age, gender, education level, marital status, income, occupation, and so on. However, Keese (2012) claimed that there was insufficient study on the effects of age, gender, education level and marital status on over-indebtedness. Thus, this study only focused on examining these four demographic variables. Moreover, there were also conflicting findings attained by past researchers on the effects age, gender, education level and marital status on over-indebtedness.

In terms of age, some researchers such as Dwyer, McCloud, and Hodson (2011) found out that there was a positive relationship between age and over-indebtedness whereby older people inclined to be more over-indebted. Contrarily, other researchers such as Nau et al. (2015) found out that there was a negative relationship between age and over-indebtedness whereby younger people inclined to be more over-indebted. In terms of education level, several researchers such as Pavlíková and Rozbořila (2014) and Nga, Yong, and Sellappan (2010) found out that there was a negative relationship between education level and over-indebtedness whereby higher education lead to lesser debt load. Nevertheless, other researchers such as Naruetharadhol et al. (2015) found out that there was no significant effect of education level on over-indebtedness. In terms of gender, some