

**FACTORS INFLUENCING PERSONAL FINANCIAL
MANAGEMENT PRACTICES AMONG GENERATION
Y IN MALAYSIA: THE MODERATING ROLE OF
FUTURE ORIENTATION**

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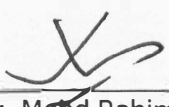
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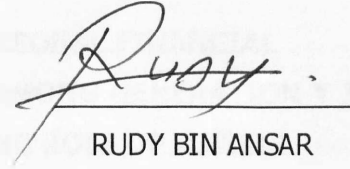

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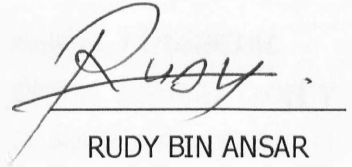


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RUDY BIN ANSAR

19th August 2019

ABSTRACT

The purpose of this study was to determine the factors influencing personal financial management practices among Generation Y in Malaysia with the moderating role of future orientation. In this study, the independent variables were financial literacy, parents, peers, mass media, money attitude of power-prestige, money attitude of retention-time, money attitude of distrust and money attitude of anxiety) while personal financial management practices act as the dependent variable. Besides, future orientation serves as a moderator. This study adapted the Theory of Planned Behaviour as an underpinning theory to predict and understand the factors that influence personal financial management practices among Generation Y in Malaysia. Samples for the study were collected from the states of Sabah, Sarawak, Selangor, Kuala Lumpur, Johor, and Penang. The participants for this study were individuals who were born between 1981 to 2001 and had any loan or credit card. A total of 205 valid questionnaires were used for the analysis carried out in this study. Data were analyzed using the Structural Equation Modelling (SEM) technique using Partial Least Squares (PLS). Results from the analyzed data revealed that only financial literacy, peers, mass media, money attitude of retention-time, money attitude of distrust and money attitude of anxiety positively influence the personal financial management practices of Generation Y in Malaysia. It also showed that future orientation only plays a moderating role in the relationship between financial literacy and money attitude of distrust towards personal financial management practices. The future orientation strengthens the relationship between financial literacy and money attitude of distrust and personal financial management practices among Generation Y in Malaysia. The study's outputs may serve as guidelines by the Malaysian government agencies and policymakers, apart from extending the body of knowledge to shed some light on personal financial management practices. The findings of the study also offer an alternative approach in addressing the escalating bankruptcy issues faced by Generation Y in Malaysia.

ABSTRAK

FAKTOR YANG MEMPENGARUHI AMALAN PENGURUSAN KEWANGAN PERIBADI DI KALANGAN GENERASI Y DI MALAYSIA: ORIENTASI MASA DEPAN BERPERANAN SEBAGAI MODERATOR.

Kajian in bertujuan untuk menentukan faktor-faktor yang mempengaruhi amalan pengurusan kewangan peribadi di kalangan Genaris Y di Malaysia dengan orientasi masa depan berperanan sebagai moderator. Dalam Kajian ini, pembelohubah bebas kajian ini ada celik kewangan, ibu bapa, sebaya, media massa, sikap wang kuasa-prestise, sikap wang masa pengekatan, sikap wang ketidakpercayaan dan sikap kewangan kecemasan sementara amalan pengurusan kewangan peribadi sebagai pembolehubah yang bersandar. Di samping itu, orientasi masa depan berfungsi moderator. Kajian ini menggunakan teori tingkah laku yang dirancang untuk meramal dan memahami perilaku kewangan individu di kalangan Generasi Y di Malaysia. Untuk tujuan kajian ini, sampel kajian telah diambil dari negeri Sabah, Sarawak, Selangor, Kuala Lumpur, Johor dan Pulau Pinang. Para peserta kajian ini adalah orang yang dilahirkan antara tahun 1980 hingga 2000 dan mempunyai sebarang bentuk pinjaman atau kad kredit. Data daripada 205 peserta digunakan untuk analisis statistik. Data dianalisis menggunakan teknik Pemodelan Persamaan Struktur (SEM) menggunakan Sisi Separa Separa (PLS). Hasil daripada data yang dianalisis menunjukkan bahawa hanya celik kewangan, rakan sebaya, media massa, sikap wang masa pengekatan, sikap wang ketidakpercayaan dan sikap kecemasan wang secara positif mempengaruhi amalan pengurusan kewangan peribadi Generasi Y di Malaysia. Ia juga menunjukkan bahawa orientasi masa depan hanya memainkan peranan yang sederhana untuk hubungan antara celik kewangan dan sikap wang ketidakpercayaan terhadap amalan pengurusan kewangan peribadi. Orientasi masa depan mengukuhkan hubungan antara celik kewangan dan sikap wang yang mengganggu dan amalan pengurusan kewangan peribadi di kalangan Generasi Y di malaysia. Hasil kajian mungkin berfungsi sebagai garis panduan oleh agensi kerajaan dan pembuat dasar Malaysia, selain memperluas badan pengetahuan untuk memberi sedikit gambaran mengenai amalan pengurusan kewangan peribadi. Penemuan kajian ini juga menawarkan pendekatan alternatif dalam menangani isu kebangkrutan yang semakin meningkat yang dihadapi oleh Generation Y di Malaysia.

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LIST OF ABBREVIATIONS

AIF	-	Asian Institute of Finance
AKPK	-	Agensi Kaunseling dan Pengurusan Kredit
AVE	-	Average Variance Extracted
BA 1967	-	Bankruptcy Act 1967
BNM	-	Bank Negara Malaysia
CA	-	Cronbach Alpha
CB-SEM	-	Covariance-Based Structural Equation Modeling
CCDM	-	Credit Counseling and Debt Management
CR	-	Composite Reliability
ETP	-	Economic Transformation Programme
IA 1967	-	Insolvency Act 1967
ICT	-	Information and Communication Technology
MAS	-	Money Attitude Scale
MBBS	-	Money Belief and Behavior Scale
MDI	-	Malaysia Department of Insolvency
MES	-	Money Ethnic Scale
MFPC	-	Malaysia Financial Planning Council
MIS	-	Money Importance Scale
MISI	-	Manulife Investor Sentiment Index
NHEF	-	National Higher Education Fund Corporation
PACFL	-	President Advisory Council on Financial Literacy
PISA	-	Program for International Student Assessment
PLS-SEM	-	Partial Least Squares Structural Equation Modeling
PTPTN	-	Perbadanan Tabung Pendidikan Tinggi Nasional
SEM	-	Structural Equation Modeling
SN	-	Subjective Norm
SPSS	-	Statistical Program for Social Sciences
TPB	-	Theory of Planned Behavior
TFFL	-	Task Force in Financial Literacy
PBC	-	Perceived Behavioral Control
PLS-SEM	-	Partial Least Square Equation Modelling
VB- SEM	-	Variance-Based Structural Equation Modeling

LIST OF SYMBOLS

α	-	Alpha
f^2	-	Effect Size
H	-	Hypotheses
Q^2	-	Stone-Geisser
R^2	-	R-squared or known as coefficient of determination
SE	-	Standard Error
β	-	Standard Beta
1-β	-	The Power of
%	-	Percentage



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CHAPTER 1

INTRODUCTION

1.1 Background of Study

Personal financial management practices is an essential skill to have for any individual. Efficient personal financial management practices will allow an individual to have control over financial freedoms without worries about his or her financial background. Moreover, having poor personal financial management practices will cause an individual to encounter financial difficulty in terms of obtaining financing and meeting financial obligations; or in the worst circumstances, the individual can be declared bankrupt.

Nowadays, bankruptcy which is more appropriately referred to as the legal status of a person or another entity that cannot pay back the debts it owes to creditors is not a new phenomenon in Malaysia (Zamzamin, Jaini, Zamanira, and Zaib, 2015; Hilwa Hilmy, Mohd Z, and Fahami, 2013). It has become one of the biggest concern as the statistics on the number of bankruptcies have shown an upsurge on a year-to-year basis. According to the Malaysian Department of Statistics (MDI, 2018), in 2010, a total of 18,119 bankruptcy cases were recorded and by the year 2014 the total number of bankruptcy cases recorded has increased to 22,351 cases; this showed that the total cases of bankruptcy increased as much as 23.3 percent in the past four years. Unfortunately, while the total cases recorded in 2015 showed a decrease by 17.42 percent, the total number of bankruptcy cases increased once again by 6.13 percent in 2016 which then decreased by 6.95 percent in 2017 (Refer to Figure 1.1).

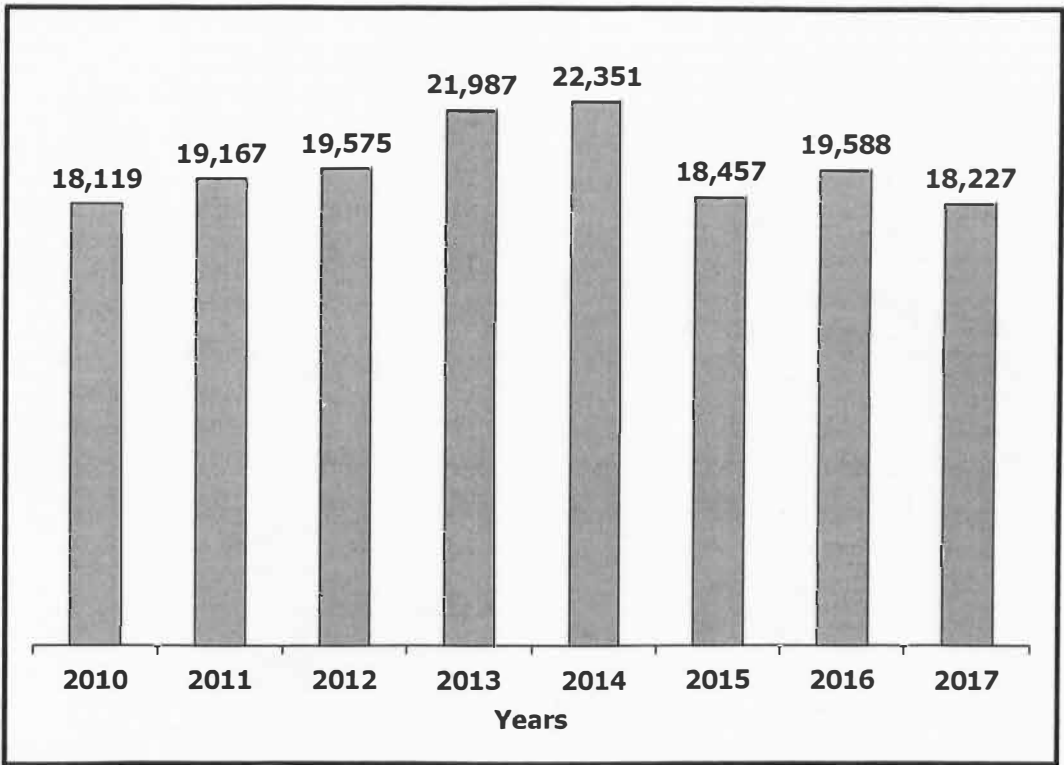


Figure 1.1: Total Bankruptcy Cases from 2010 to 2017

Source: Malaysia Department of Insolvency (2018)

Critically, the main issue lies with the age range of those who have been declared bankrupt, especially with the young generation identified as Generation Y. According to MDI (2018), from the year 2010 to 2017, a total of 41,913 cases involving individuals below the age of 34 (Generation Y) declaring bankruptcy were reported in Malaysia (Refer to Figure 1.2). This would prove to be an unfavorable situation for Malaysia as the country is in the process of accomplishing its Economic Transformation Programme towards becoming a developed nation by the year 2020 (Min-Yen Teoh, Chong, and Mid Yong 2013). Additionally, the situation itself may harm the daily life of these younger generations as it will lead to reduced personal consumption which can affect their futures indirectly. Thus, it can be presumed that bankruptcy is a real concern that needs to be taken seriously if the goal of a stable and prosperous economic life for the country is to be achieved (Zamzamin *et al.*, 2015).

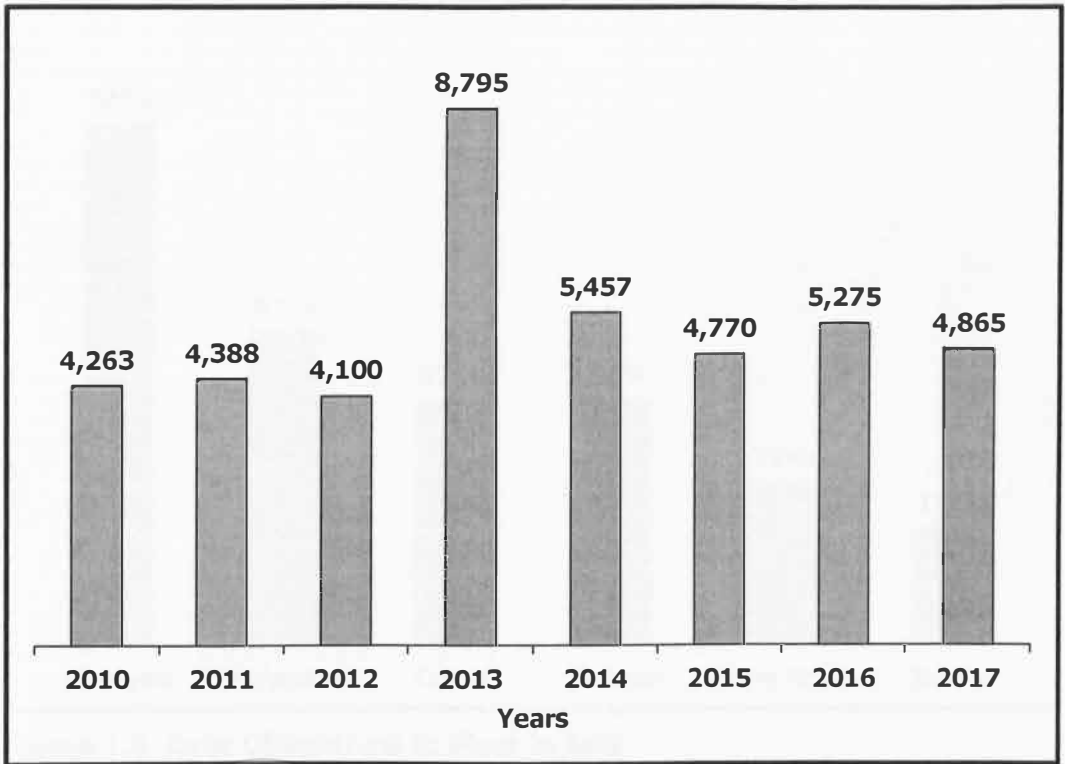


Figure 1.2: Total Bankruptcy Below 34 Years old from 2010 to 2017

Source: Malaysia Department of Insolvency (2018)

There is rising worry on the need of good personal financial management practices among Malaysians especially for Generation Y in Malaysia. For example, A study in 2016 by Manulife Investor Sentiment Index (MISI) revealed that a majority of Malaysians have accumulated debt which led it to become the most indebted society in Asia (Refer to Figure 1.3). The results from the study also showed that 68 percent of Malaysians currently have some form of debt obligations that need to be fulfilled. The result itself is vastly in contrast with other countries such as Philippines (41 percent), China (32 percent), Taiwan (32 percent), Hong Kong (21 percent) and Japan (15 percent). Based on the results, it is discovered that the average debt per person in Malaysia is RM56,000 which is nearly ten times more than the average monthly income of an average Malaysian (MISI, 2016). The survey also revealed that Malaysians often fail to manage their cash flow due to poor financial management practices (MISI, 2016).

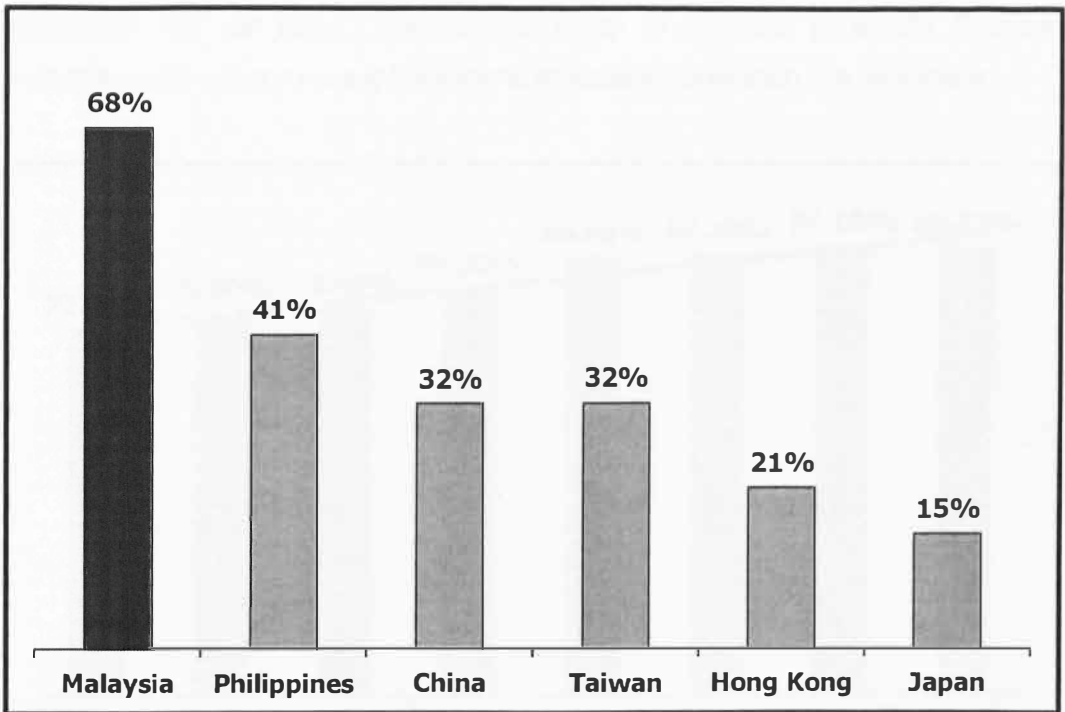


Figure 1.3: Debt Obligations to Meet in Asia

Source: Manulife Investor Sentiment Index (MISI) (2016)

Furthermore, the issue of rising household debt across Asia is raising red flags with a particular focus being put on Malaysia. Based on the report by The Star in 2016, Malaysia has the highest household debt as a portion of the GDP among the developing countries in Asia. The household debt in Malaysia showed an increasing trend from 2009 to 2015 with a slight decrease in 2016 (BNM, 2017). Throughout 2009 (72.40 percent) to 2015 (89.10 percent), the household debt in Malaysia increased by 16.7 percent and decreased in 2016 by 0.7 percent (Refer to Figure 1.4) (BNM, 2017). This issue would not bode well for Malaysia as a country given that high level of debts is a sign that Malaysians are burdened by debt throughout their life. It may cause more Malaysians, especially the youth, to become bankrupt if they lack the necessary self-discipline to manage their finances properly as a majority of them do not possess any savings to ward off unexpected events such as accidents, inflation and layoffs (Malay Mail online, 2015). As reported by Malay Mail Online (2015), a large percentage of people coming from various socio-economic backgrounds were found to not have any savings; even worse, many of them were already encumbered with multiple debts in the form of credit card bills, house

mortgages and car loans. Therefore, a study to examine personal's financial management practices among Malaysians especially Generation Y is necessary

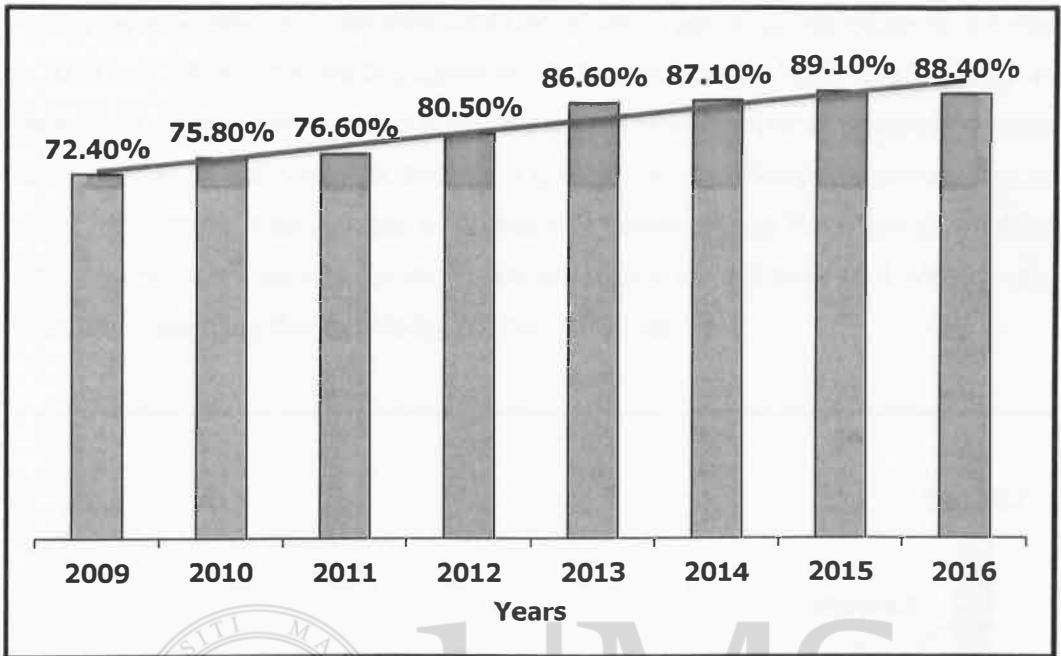


Figure 1.4: Household Debt in Malaysia from 2009 to 2016

Source: Bank Negara Malaysia (BNM) (2017)

Moreover, Financial Education Network (FEN) (2019) reported that almost 41 percent of Malaysian make their EPF as the only source of income for their retirement, 84 percent of Malaysian not worried on everyday costs in their old age and 6 in 10 Malaysian not covered by any formal retirement. From the reported also revealed that only 24 percent of Malaysian have a budget but two in five hard to keep to the budget.

Additionally, Malaysian youths are more likely to incur debt once they graduate from university or start working (MISI, 2016). As fresh graduates from universities begin to work, some of them would like to buy non-durable assets such as cars. These kinds of spending would push them into debt and result in a high possibility that they may become insolvent if they lack the discipline to manage their finances properly. Based on the MDI report, between 2011 to 2017, among the leading cause of bankruptcy recorded in Malaysia was vehicle hire-purchases loan which amounts to 36,976 individuals were reported to be bankrupt.